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No. 2

HOUSE OF COMMONS

Second Session—Twenty-fourth Parliament

1959

Government
Publications

STANDING COMMITTEE

ON

RAILWAYS, CANALS AND
TELEGRAPH LINES

Chairman: GORDON K. FRASER, ESQ.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Bill C-38, An Act to make Provision for the Reduction of
Certain Class and Commodity Rates on Freight Traffic.

WEDNESDAY, APRIL 15, 1959

WITNESSES:

The Honourable George Hees, Minister of Transport; Messrs. R. Kerr, Chief Commissioner, Board of Transport Commissioners for Canada; H. H. Griffin, Assistant Chief Commissioner; L. J. Knowles, Commissioner; A. S. Kirk, Director, Traffic Branch; G. A. Scott, Director, Economics Policy Branch, Department of Transport; R. R. Southam, M.P.; J. Magee, Executive Secretary, Canadian Trucking Associations Inc.; J. O. Goodman, General Manager, The Automotive Transport Association of Ontario; G. H. Montague, Secretary and Legal Counsel, Applied Economic Research Associates; G. Blair, Counsel, Great Western Coal Company Ltd. and Manitoba and Saskatchewan Coal Company Ltd.; J. Guest, Representing the Government of the Province of British Columbia; and J. M. Roberts, Assistant General Traffic Manager, Canadian Pacific Railway Co.

THE QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1959

STANDING COMMITTEE
ON
RAILWAYS, CANALS AND TELEGRAPH LINES

Chairman: G. K. Fraser, Esq.,

Vice-Chairman: M. W. Howe, Esq.,

and Messrs.

Allmark,	Fisher,	Monteith (<i>Verdun</i>),
Asselin,	Fréchette,	Nielsen,
Badanai,	Grills,	Nixon,
Baldwin,	Hardie,	Pascoe,
Batten,	Horner (<i>Acadia</i>),	Payne,
Bell (<i>Saint John-Albert</i>),	Horner (<i>Jasper-Edson</i>),	Phillips,
Bigg,	Howard,	Racine,
Bourbonnais,	Johnson,	Richard (<i>Kamouraska</i>),
Bourget,	Keays,	Rynard,
Brassard (<i>Lapointe</i>),	Kennedy,	Small,
Browne (<i>Vancouver-Kingsway</i>),	MacInnis,	Smallwood,
Brunsdon,	MacLean (<i>Winnipeg North Centre</i>),	Smith (<i>Calgary South</i>),
Cadieu,	Martin (<i>Essex East</i>),	Smith (<i>Lincoln</i>),
Campbell (<i>Stormont</i>),	Martini,	Smith (<i>Simcoe North</i>),
Chevrier,	McBain,	Tassé,
Chown,	McDonald (<i>Hamilton South</i>),	Thompson,
Creaghan,	McMillan,	Tucker,
Crouse,	McPhillips,	Webster,
Dupuis,	Michaud,	Wratten—58.
Drysdale,		

J. E. O'Connor,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, April 15, 1959.

The Standing Committee on Railways, Canals and Telegraph Lines met at 9.10 a.m. this day. The Vice-Chairman, Mr. Howe, presided.

Members present: Messrs. Asselin, Badanai, Baldwin, Bell (St. John-Albert), Bourbonnais, Browne (*Vancouver-Kingsway*), Cadieu, Chevrier, Chown, Crouse, Drysdale, Fisher, Horner (*Acadia*), Horner (*Jasper-Edson*), Howe, Kennedy, Martin (*Essex East*), McBain, McPhillips, Monteith (*Verdun*), Nixon Pascoe, Payne, Phillips, Rynard, Smallwood, and Smith (*Simcoe North*).—27.

In attendance: The Honourable George Hees, Minister of Transport; Messrs. R. Kerr, Chief Commissioner, Board of Transport Commissioners, for Canada; L. J. Knowles, Commissioner; A. S. Kirk, Director, Traffic Branch; G. A. Scott, Director, Economics Policy Branch, Department of Transport; J. Magee, Executive Secretary, Canadian Trucking Associations Inc.; J. O. Goodman, General Manager, The Automotive Transport Association of Ontario, and G. H. Montague, Secretary and Legal Counsel, Applied Economic Research Associates.

Quorum present, the Vice-Chairman called upon Messrs. Magee, Goodman and Montague who were further questioned concerning the Brief presented at the Committee's last meeting.

Mr. Magee's questioning completed, he and his associates were retired.

At 10.30 a.m. the Committee adjourned to meet again at 3.30 p.m. this day.

AFTERNOON SITTING

The Committee met at 3.30 p.m. this day. The Vice-Chairman, Mr. Howe, presided.

Members present: Messrs. Asselin, Badanai, Baldwin, Bell (St. John-Albert), Bourbonnais, Browne (*Vancouver-Kingsway*), Chevrier, Creaghan, Drysdale, Fisher, Horner (*Acadia*), Howard, Howe, Kennedy, MacLean (*Winnipeg North Centre*), McPhillips, Monteith (*Verdun*), Nixon, Pascoe, Phillips, Smallwood, Smith (*Calgary South*), Tucker, and Wratten.—24.

In attendance: In addition to those persons listed as in attendance this morning, Messrs. R. R. Southam, M.P.; G. Blair, Counsel for Great Western Coal Co. Ltd. and Manitoba and Saskatchewan Coal Co. Ltd.; H. H. Griffin, Assistant Chief Commissioner, Board of Transport Commissioners for Canada; J. Guest, Representative of the Government of the Province of British Columbia; and J. M. Roberts, Assistant General Traffic Manager, Canadian Pacific Railways.

Mr. Blair was called and read a Brief on behalf of the Lignite Mining Industry of the Province of Saskatchewan.

Mr. Southam was introduced and together with Mr. Blair answered questions concerning the position of the industry in relation to Bill C-38.

Mr. Knowles answered further questions concerning the effect of the application of the provisions of the Bill.

Mr. Guest was called and read a Brief outlining the views of the government of British Columbia on the Bill.

During the course of Mr. Guest's questioning, the Minister and Messrs. Knowles and Roberts also answered questions.

At 5.45 p.m., Mr. Guest's examination continuing, the Committee adjourned to meet again at 9.30 a.m. Thursday, April 16, 1959.

J. E. O'Connor,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, April 15, 1959.

9:00 a.m.

The VICE-CHAIRMAN (*Mr. Howe*): Gentlemen, we are still on clause 1 of the bill. It is good to see that we have a quorum this morning, so we can get away to a good start. When we finished last night we were still dealing with the brief presented by Mr. Magee, the executive secretary of Canadian Trucking Associations Inc. With him were Mr. Goodman, General manager of the Automotive Transport Association of Ontario and Mr. Montague, Secretary and Legal Counsel of the Applied Economic Research Associates.

If those gentlemen will come up to the front, we will continue with the questions. The Minister has to leave for a very important engagement at ten o'clock.

Mr. CHEVRIER: Will he be back for eleven o'clock?

Hon. GEORGE HEES (*Minister of Transport*): I think I will just make it.

Mr. BROWNE (*Vancouver-Kingsway*): Mr. Chairman, there are two or three questions I would like to ask Mr. Magee arising out of questions that were asked last night. I would like to get some clarification of some of the answers that were given.

Mr. Chevrier I believe asked that, inasmuch as you were opposed to this rail subsidy, did you have any suggestion as to what should be offered instead of a subsidy, or what would happen if the subsidy was not given. I was not too clear with regard to your reply on that.

Mr. CHEVRIER: In other words, you would like to bring it up again—and I have no objection.

Mr. MAGEE (*Executive Secretary, Canadian Trucking Associations*): Probably it is just as well, Mr. Chairman, because perhaps my reply was not too clear. Our position throughout the submission is that the transportation situation in Canada should be allowed to remain competitive and that the 17 per cent increase should not have been dealt with by a subsidized rate roll-back applied to railway rates.

The railways, before the board, said they were confident that with that rate increase they could obtain the necessary revenues to conduct their operations. If their confidence was misplaced, then we say that they would have to come back to the board and raise their problems again.

That leads to the assumption that we have ever-increasing rate rises. We have answered that point already, I think, in our submission by saying and showing that the rate increases in the past decade in Canada have not been of the tremendous nature many figures used would indicate, and that they have not been tremendous because of the existence of competition.

We say, let the transportation situation of Canada remain competitive and do not start to apply a policy of subsidy to the reduction of rates of one of the competitors.

Mr. BROWNE (*Vancouver-Kingsway*): I think that clears that matter up, Mr. Magee, thank you. Another point that was raised was in questions in connection with the Crowsnest Pass rates, and I was not too sure of the feelings of the association towards those rates.

Mr. MAGEE: The Canadian Trucking Associations first mentioned the Crowsnest Pass rates in the submission presented to the minister in Janu-

ary. At that time there seemed to be a possibility of some kind of a subsidized rate roll-back on the railways.

We appeared before the minister to indicate in advance, our opposition to such a measure. We felt that to oppose a rate roll-back, which would have diminished the 17 per cent rate increase, we might also have been faced with the question: it is all very well for you truckers to come along and say, let us have no subsidized rate reduction for one form of transport because this whole transportation system is competitive; but are you operating in the trucking industry with any rate set at the level of say, 30 years ago when the first trucks began to roll? Of course, our answer would have to be no, not only that, but we could not operate under those circumstances. So in our submission to the minister we took a position on the Crowsnest Pass rates, what might be called an interim position, and this was discussed by our board of directors all across Canada.

I will paraphrase what we said to the minister. I will give the essential position and leave out some of the relevant information which does not change our position.

If any action should be considered by the government in respect to the Crowsnest pass rates—either the raising of these rates by parliament, or, in lieu of this, a subsidy to the railways specifically for the grain movement—careful study must be made of the cost of handling the grain traffic and the revenue received by the railways in order to find out if the present level of grain rates is compensatory.

It may be that the grain rates are not compensatory and that the government will conclude that something should be done about it. But we submit that the matter is not one that can be decided in a day, a week, or even in a month.

Those particular words, "in a day, a week, or even in a month" were addressed to our concern at that moment that rail rate subsidization might be immediately in the offing.

The comments of Commissioner H. B. Chase—his "further observations" in the decision of the Board of Transport Commissioners awarding the railways a 17 per cent freight rate increase—support the contention that it may now be in the interests of all concerned to embark upon a study of the Crowsnest pass rates and to come to grips with this problem of the railways, if it is agreed that a problem exists.

Even if the government should finally decide that the railroads should be compensated from the treasury solely in respect to maintenance of the Crowsnest grain rates at their present level, the government would have to have before it precise and adequately determined evidence as to what this level should be. It would be unfair and discriminative, in respect to modes of transport directly competitive with the railways in both service and rates, to undertake subsidization of the railroads beyond an amount truly compensatory in respect to the Crowsnest grain rates.

The trucking industry will, of course, have to face intensified competition from the railways if it is found that the Crowsnest Pass rates, to be maintained at their present level, should become at least a partial charge upon the public treasury. If some revenues of the railways are now tied up in support of these rates, these revenues, with the advent of a specific subsidy directed only to the Crowsnest rates, would be freed for support of general operations of the railways.

Even if the consequences should bear directly upon the fortunes of the trucking industry, we merely ask that whatever is done should be fairly and properly determined and based on facts authoritatively assembled.

That is our position at this moment.

Mr. CHEVRIER: Mr. Browne asked you a question and you stated in effect that you felt that subsidization was harmful in so far as the position of the truckers is concerned. Does that mean you also feel that the bridge subsidy which was passed some years ago in the amount of \$7 million also was harmful to your position?

Mr. MAGEE: Potentially the bridge subsidy may have had its effect, but we never made any representations about the bridge subsidy. You will recall that when you introduced it this was one of the cases when the Canadian Trucking Associations were not on your doorstep. We have never taken any position pro or con in respect of the bridge subsidy.

Mr. CHEVRIER: Then how did you feel about it when in the maritimes the freight rate was changed from 20 to 30 on outgoing traffic?

Mr. MAGEE: Our feeling about the increase of the subsidization or the rate reduction to 30 per cent on the westbound interprovincial haul prompted us to make a considerable study of the whole maritime transportation situation as it involved our industry, particularly because at the same time as that subsidized rate reduction was increased the government of the day announced there would be an inquiry into the maritime transportation problems. Obviously then we had to decide what was our position in respect of the Maritime Freight Rates Act. We came to the conclusion that the Maritime Freight Rates Act, and the rate reductions under it, were not going to be removed and therefore that we would have to consider what other action could be taken to equalize the competitive conditions under the act as between rail and trucking.

As of the sixth of this month we presented a submission of the interdepartmental committee investigating the maritime transportation problem in which we asked that the Maritime Freight Rates Act be extended to include the trucking industry in the maritime provinces.

Mr. CHEVRIER: To whom was this presentation made?

Mr. MAGEE: The interdepartmental committee investigating the maritime transportation problem.

Mr. CHEVRIER: Is it a federal group?

Mr. MAGEE: Yes, we sent the submission to Mr. Baldwin.

Mr. FISHER: Is that the committee Mr. Brooks is on?

Mr. MAGEE: I think so.

Mr. BROWNE (*Vancouver-Kingsway*): What does the trucking industry do in respect of moving agricultural products? Is it feasible to move grain by truck? Do they move any farm products at all?

Mr. MAGEE: I gave an answer to that question yesterday from the dominion bureau of statistics motor transport statistics, national estimates 1957.

Mr. HORNER (*Jasper-Edson*): Short haul.

Mr. MAGEE: It gave a sample of the traffic which accounted for \$71,958,000 of gross revenue. I pointed out that the total gross revenue of the trucking industry for 1957 was \$380,759,000. So this is only a sample. On page 30 of this report the dominion bureau of statistics defined agricultural products in a commodity classification as flour, fruit, grain, grain products, sugar beets, vegetables and other agricultural products. We accounted for 108,848,000 net ton miles in 1957, with the average haul per ton being 598.1 miles. Of course, that is an average figure, so many of the hauls were longer and some were shorter.

The other contribution of the trucking industry in regard to the haulage of products of the farm is a figure which I did not give yesterday, which I should have given. That is animals and animal products which the dominion

bureau of statistics defines in respect of trucking as animals, live poultry, butter, cheese, eggs, cattle, calves, hogs, dressed meats, packing house products, fish, hides and skins, milk and cream, wool and other animal products.

The trucking industry in the haulage of that type of traffic accounted for 132,838,000 net ton miles in 1957, with the average haul per ton being 684.7 miles.

Mr. HORNER (Acadia): Referring to the statement of the average haul of 500 miles, that would hardly take you out of Ontario. When you consider the fact that it takes six box cars of grain to move one million bushels of wheat, and Canada exported over 300 million bushels last year, I think that your part in the grain movement is very, very small. I do not think your figures hold water at all.

Mr. MAGEE: We are not an industry which is over 100 years old. A lot of very remarkable things are happening in the trucking field. There is a thruway in the United States now which is a four-lane highway with one-way traffic in each direction on which they are permitting the use of truck trains. They have questioned every motorist who used the highway ever since they started some weeks ago as to whether or not they noticed anything different on the thruway since that began. All of them replied that they have not, when the fact of the matter is they are running trucks of much greater length on that highway. They detach one of the trailers at the end of the thruway.

I say again that the potentialities of trucking are never static and we do not know what will happen in the future. This contribution to the haulage of the many products of the farming community probably could not have been known 15 years ago. Now it is developing to this point and is growing all the time.

Mr. CHEVRIER: Could we find out who are the members of this interdepartmental committee which was mentioned?

Mr. HEES: There are four regular members representing three departments, the Deputy Minister of Transport, Mr. Baldwin, the director of economic policy of the Department of Transport, Mr. George Scott, Mr. Bryce, Clerk of the Privy Council representing the Privy Council office, and Mr. Ken Taylor, Deputy Minister of Finance. Those are the four regular members.

Then there are certain ad hoc members who are called when matters are concerned affecting their department.

Mr. CHEVRIER: I suppose certain ministers?

Mr. HEES: No. This is an interdepartmental committee on that basis; it is not a committee of ministers.

Mr. CHEVRIER: Then may I ask Mr. Magee if he made representations along those lines to the interdepartmental committee covering the increase in the maritime outward movement, the maritime freight rates subsidy? Did he make any representation to the interdepartmental committee in connection with this subsidy.

Mr. MAGEE: No, sir. If this subsidy had been applied to railroad competitive rates and agreed charges, we would have asked the government to apply this subsidy also to the trucking industry.

Mr. CHEVRIER: Is that the only reason why you made no representations, either to the interdepartmental or to this committee to be included in this particular subsidy.

Mr. MAGEE: Yes, sir.

The VICE-CHAIRMAN: Is the trucking done, for instance, by the creameries who own their own trucks and the agricultural cooperatives who have their

own trucks included in that total which you gave of the agricultural products carried by the trucking industry? Is that included?

Mr. MAGEE: Not unless they would be hauling somebody's products for hire. These are figures on the for-hire movement.

The VICE-CHAIRMAN: If the trucks were used exclusively for their own use, it would not be included in that?

Mr. MAGEE: No. The dominion bureau of statistics heading is "for hire" and it gives the total revenue for the commodity movement, so it is commercial transportation only and does not involve private haulage by creameries, for instance, hauling their own products.

Mr. FISHER: You come here, Mr. Magee, as I understand it, with a brief which has the principle of competitive free enterprise.

Mr. MAGEE: Yes.

Mr. FISHER: It is a principle which should appeal to most, but not all, of the members of this committee. The fact that you made a representation to this interdepartmental committee which would perhaps put you on the track of the subsidy, in effect is a contradiction to your main thesis. Do you recognize this as a change of policy and principle?

Mr. MAGEE: No, sir. I think the situation in respect of the Maritime Freight Rates Act subsidy is quite different from this measure here. That is a measure which has been in effect since 1927. It applies to competitive rates of the railway. I will go this far, that if the railway is forced by competition in the maritimes to reduce its rate below the standard rate level, 20 per cent below, and then it has to go down further because of competition, in other words where there would be more than the rate reduction compelled by the Maritime Freight Rates Act, even if no subsidy was necessary because of the existence of competition, the railways still collect a subsidy in that movement.

There has been \$200 million, a very large sum of money, spent in subsidies in railway rates since 1927 in the maritimes. We have tried to show the effect of that on the maritime trucking industry, which is quite distinctive compared to industry in the rest of Canada for the much smaller development it has had. We feel we have to face the facts of life and that it is most unlikely the subsidy will be removed—and perhaps it is not in the public interest that it be removed. The problem then, as we have said, is to put the overland freight transportation of the maritime provinces on an equal footing. This becomes very serious in the long haul, because that is the more difficult problem for the truck traffic. The question has already been raised about trucking in the long hauls. If we are going into subsidization to overcome the distance problem in the freight rate situation, and if it is going to be slapped on the long hauls, then we say that is even more reason to take into account the position of the trucking industry. We say: why single out shippers only on the railways for the benefit?

Mr. FISHER: Because of the permanence of the maritime freight rate subsidization you feel you have to recognize it and in fact try to get in on the same basis?

Mr. MAGEE: That is correct.

Mr. FISHER: So it is just realism on your part rather than any contradiction of your basic principle.

Mr. MAGEE: That is right.

Mr. FISHER: You feel that, according to your basic principle, if subsidization in the maritimes were to be wiped out, eventually it would have the effect of bringing about lower rates through the working of competition between the railways and the truckers?

Mr. MAGEE: I think as long as competition exists it is inevitable that the rate structure of the two competitive industries is going to be held down, yes.

Mr. FISHER: You will probably remember when yesterday the minister recognized there was a fairly direct relationship between this subsidy and railway wage boosts which went into effect last fall. You, as a group, dealing with unions, are also faced with the very same proposition. How do you propose to handle this situation, I mean the labour side of the situation.

Mr. MAGEE: That is a very important question to us because of the very fact that the trucking rate increases which followed the 17 per cent rate increase in some instances were directly related to the wage settlements which had just been concluded with the teamsters union. That happens to be our union, the teamsters union. I think that anybody who knows anything about it, knows that they are not very easy people to deal with. We think it is one of the very serious parts of the problem, that our labour force expects to continue to have increased wages and improved working conditions, and that is inevitably going to put a strain on our rate structure.

We do not deal with these unions as a nation-wide group. There is a big difference in our labour situation as compared to that of the railways. We are dealing with them as locals in various cities across Canada; and the union local leader, let us say in Vancouver or Winnipeg, does not have the slightest bit of interest in our potential problems in regard to subsidies, and our railway competitors.

Mr. FISHER: Do you feel that it is an advantage to the railways in being able to have the single bargaining unit right across the nation in so far as railway employees are concerned?

Mr. MAGEE: I was not trying to raise the point of whether it is an advantage or whether it is a disadvantage. I am not well enough informed in labour matters to make any comments about it. I just wanted you to see the difference in the position. We are not dealing with one union right across the country.

In our industry, industry-wide wage settlements are not made with one unit. We come head on against the fact that the trucking industry could not possibly make any further increase in rates because its competitors' rates were not going up.

Mr. FISHER: You have been asked to make more specific recommendations in connection with this subsidy, and for your views on it. If we recognize that the reason for this subsidy is the cause of the railway wage boost, have you any recommendations in connection with that particular problem, that is, the railway wage and the labour position in respect to any permanence of subsidies and more and more subsidies?

Mr. MAGEE: This is an interim subsidy for one year. The life of it is one year in the present legislation. But it is presumed that if the royal commission can report in time, it will have considered whether this subsidy should be continued, extended, or removed.

Mr. FISHER: We may continue to have nation-wide bargaining for a year or two, and we may continue with the railways getting these wage increases. How do you suggest this problem should be met if it is central to the situation?

Mr. MAGEE: It could be met by the railways in two ways, just the same way as we have to meet this problem. First of all, technological progress should enable the railways to reduce costs. They have made very substantial advances, as I indicated yesterday. I do not want to be patronizing to the railways, but they have spruced up their whole operation tremendously in the past five years. Competition is becoming much more severe. They have introduced cost-reducing measures. That is one way they can take up the

slack, and it is one compulsion which comes upon us in regard to wage increase. Secondly, they would raise their rates.

Mr. FISHER: Yesterday, when replying to Mr. Chown, in my opinion you did not go into complete detail in answering his complaint. If you look at schedules eight and nine and compare them, it shows the percentage of maintenance of way cost as a total percentage in which, for the railways, it is 20.5 per cent, while for trucking it is only 6.9 per cent. In fact it is very obvious from these figures that there is a very much greater burden in this respect resting on the railways. This, it seems to me, is a fundamental weakness in your position in so far as any attitude towards subsidization is concerned.

What is your rationalization of what some people say is the subsidy which you get in terms of highways and such things as thruways.

Mr. MAGEE: In the first place, I do not have the report in front of me, but the railways have the misfortune in this particular instance of being a form of transportation which must move on a fixed track installation, and nothing else can use it.

We have the good fortune, along with aeroplanes and ships, in being able to move more freely upon other types of roadway. The types of roadway which we use, very largely, even if there were no trucks rolling, would probably be used to accommodate automobile traffic. But as far as our use of them is concerned, we certainly must pay our fair share for them; and the provincial governments, I think, across the country, are ensuring that we do so.

The truck taxation situation is constantly being reviewed and adjusted in every province. I do not think that any province in Canada is going to let us get away with paying less than our fair share for the use of their highways.

Mr. FISHER: The railways have this sort of built-in added percentage of expense. Do you not think that they have a different relationship to the public treasury and to the public than your group has?

Mr. MAGEE: No sir; I do not think you can take just one operating characteristic of any one form of transportation and compare it with another in that way. You have to take the total picture. For example, if 50 or 60 loaded freight cars go out, on a railway it is a one-power unit which hauls them, made up of a crew of four or five men.

Unless we do piggy-backing—and there are many routes in Canada on which we cannot do it, where we could never do it anyway—to give the kind of service we are giving, personal, fast, point-to-point service, we have to dispatch a power unit with a driver for every load that goes out. So while you may get in one industry a cost which looks like a very unfavourable operating situation, as on the railways compared to the trucks, you can get in another industry a cost which balances it up.

Mr. FISHER: I have no further questions. I compliment you on your presentation. I do not agree with much of it, but you do it very well.

Mr. BROWNE (*Vancouver-Kingsway*): I would like to ask one question arising out of some of the tables presented. On page 10 there is a table dealing with the average revenue per ton mile, and there is another one on page 22. Can you explain why the table on page 10 shows a smaller percentage of increase in the average revenue per ton mile when compared to the one on page 22?

Mr. MAGEE: I shall ask Mr. Montague to answer you.

The CHAIRMAN: Certainly.

Mr. George MONTAGUE (*Secretary and Legal Counsel of the Applied Economic Research Associates*): Before giving a detailed answer, I would like to point out—as this has raised the issue which is the pertinent key subject of

our brief—that any figures that we presented on the waybill analysis must not be looked upon as absolute figures.

Please remember that the waybill analysis is limited so far as we are concerned, to showing trends and comparisons; so the absolute figures, the figures we give, should not be quoted as being railway revenue per ton mile. In other words, please do not look at any of our individual figures and say to yourselves: this is the situation. The only absolute figures in our brief are the figures on table 10, because they came from Dominion Bureau of Statistics sources.

Table 1 on page 10 would be an example taken from actual railway revenue. All the rest of our tables of figures are assembled only from waybill analyses and are only of true value when looking for comparisons between them. Therefore I think that the most important table—but let me give you an example: we have a chart number 8, and we have a chart number 4.

Chart 4 gives single figures showing the burden of railway rates. Yesterday a question was handed to me relating to this. It asked whether it is a valid figure that we have shown. I tried to indicate it was only valid in comparing like situations. So these figures are not absolute. You must not say that the Canadian trucking associations are quoting these figures as being railway revenue per ton mile.

Then we come to chart 8 near the end of the brief. This chart is useful I think because it only shows the percentage of raise and decrease. There we are only comparing like situations. We compare what happens with railway rates in one year as opposed to another, and we use the same basic assumptions. Please do not regard our figures as being absolute figures. There is only one table which is that way, and it is the first table you quoted.

Mr. HORNER (*Jasper-Edson*): I do not accept the ton-mile comparison at all. We cannot find anywhere in the brief figures for the percentage increase on the two classes we are considering, class and commodity rates. You show the increase in percentage revenue from those two particular classes, but you do not show the percentage of increase in the actual rates. Have you got those figures?

Mr. MAGEE: We show the total rate trend of the past decade, but we do not break it down in groups. The minute you break it down in groups and proceed from there on the assumption that perhaps the subsidy should go on there, it again raises the question of why one group of shippers which has been using one form of transport in Canada should benefit by the subsidy on their traffic while shippers who use other forms of transport do not.

Mr. HORNER (*Jasper-Edson*): It does not give a fair impression when you say that the actual increase in freight rates in Canada is only 57 per cent as compared to the maximum possible of 157, or something of that nature. We agree with the agreed charge and with competitive rates. Of course we do not feel they have gone up as much. But we, in western Canada, feel that class and commodity rates show the effect in agricultural communities particularly where we feel they have gone up to practically the full limit.

I would like to point out that this increase in competitive rates and agreed charge rates in western Canada is almost entirely payable by industrial operations in western Canada, and is not payable by agriculture at all, or if so, to a very minor degree. Therefore, the entire cost of this great increase over the past ten years in western Canada has been borne by our agricultural economy. That is a point which you do not take into consideration in your brief at all.

Mr. E. G. CHARNOCK (*Chairman of the Joint Transportation Committee of Port Arthur and Fort William*): Mr. Chairman, I am chairman of the joint transportation committee of Port Arthur and Fort William. May I ask a question?

THE VICE-CHAIRMAN: We cannot have questions from witnesses until such time as they take their place here.

MR. CHARNOCK: Some of the statements made here need correction.

THE VICE-CHAIRMAN: You will have a chance to do that later on, Mr. Charnock.

MR. HORNER (Acadia): I agree that things should be kept on a competitive basis, but there are one or two things which have to be considered. One is the fact that the railways, particularly in western Canada, started many communities there and they are more or less concerned with the fact that they have to serve those communities. I have seen trucks loaded with freight going into a lot of small towns; they will run there for a couple of months, as long as they can make a dollar at it, and then they will drop out and the people have to go back to the railroads.

It is fortunate for the people concerned that the railroads are still there and still running, and that they take over the business during the winter months, while the truckers take it over during the summer.

In view of the fact that the railroads have to serve these communities, perhaps they should be given a little consideration. They are bound to serve a great many communities, while the trucking industry is not.

MR. MAGEE: I realize that the railroads are required to do that; but I think there are very few communities in Canada which are not supplied with sufficient competitive trucking service so that in the event of a failure by an operator that community would never be left without any highway freight service.

MR. HORNER (Acadia): There are quite a few in western Canada in the winter time, particularly when the roads are clogged up.

MR. MAGEE: If we can get the roads cleared, we will go there.

MR. HORNER (Acadia): In my own area I have seen places where the trucks could not move over the roads for two months in the winter, because they were not ploughed and it was impossible to get them ploughed.

MR. MAGEE: In the province of Quebec before the provincial government proceeded to plough the roads, we ploughed them ourselves in order to keep the trucks going. I know you have heard it said that the trucks run in good weather but do not care to run in bad weather. However, we ploughed the roads.

MR. HORNER (Acadia): That is news to me.

MR. PAYNE: According to your submission before the committee there is a claim that you carry your fair share of the cost of the rights-of-way on which you operate. In view of these submissions which has been presented to at least two provincial governments to my knowledge—I mean the provinces of British Columbia and Alberta—it is truck revenue, as far as the provincial treasurers are concerned, which is the source—I mean the gas tax, and the vehicle licensing—but it does not cover the replacement cost, let alone the capital costs. The truck revenue, as far as the provincial treasuries are concerned, from such sources as gas taxes and vehicle licences, would not cover the wear and tear and replacement costs, let alone capital costs. Over the past fourteen years data and information has been supplied to the provincial departments or highways indicating these facts. What do you submit to this committee to establish your fundamental claim? Have you facts and figures to indicate you are in fact paying your share of highway costs? There are motor associations claiming that you are in fact subsidized by the provinces.

Mr. MAGEE: I know of no motor associations in Canada claiming we do not pay our fair share. I may be wrong, but I am not aware of any automobile associations in Canada which have claimed we do not pay our fair share of taxes.

Mr. KENNEDY: I think probably you should check on the submissions some of them are making to the provincial authorities.

Mr. MAGEE: I see. As you know, in British Columbia we are now at a position where there are going to be adjustments made in the taxes in that province. Recently there were adjustments made in the province of Ontario. As I said, the picture is constantly under review by the provincial authorities and where they find there is a need for increased taxation the taxes are increased.

Mr. KENNEDY: You have no figures to substantiate the position you are taking?

Mr. MAGEE: I can obtain figures to substantiate my position, but I would have to do it over the ten provinces because the taxation is on a provincial basis. It would take a great deal of the time of this committee.

Mr. KENNEDY: I ask that we have these figures to substantiate this, and that Mr. Magee be good enough to present them to the committee.

Mr. MAGEE: We can obtain taxation figures and present them, but to get them into the form in which you would like to have them will take a little while. However, we will be more than glad to do it. Incidentally, we suspect it is a matter which the royal commission will be looking into and we intend to be ready to substantiate our position there; but we do not feel this is related to the type of subsidy in the bill.

As I explained yesterday, this type of subsidy about which we are speaking now is a roadbed subsidy, and in talking about that, the claim which may exist in any province of Canada—and it certainly does not exist Canada-wide; but as it exists in any province—it is related to land grants, cash grants, bond guarantees, mineral rights and other things given to the railways in order to build their roadbeds across Canada.

Mr. KENNEDY: Has your organization made any attempt to compare on the one hand your total contribution to government, both provincial and federal, through taxes, tolls, fees and so on, as against the total cost of railway maintenance or roadbed and traffic control and capitalization?

Mr. MAGEE: Not in comparison to the railways. Again I do not think it is relevant to this picture, because it is taking only one part of the railway cost picture. If the railways have passengers and other types of operations which are not freight, I do not see how the impact of the measures which you mention upon those types of transport can enter into an analysis of that situation.

Mr. KENNEDY: Do you not include passenger transport in your association?

Mr. MAGEE: No, sir; just freight.

Mr. CHOWN: I wish to go back to the labour relations problem. First of all, would you tell me who negotiates your labour union contracts and as to whether or not they are handled provincially by your trucking associations? Did you remark that it was not done on a national basis, and did your remarks imply that the wage rates vary from province to province?

Mr. MAGEE: Yes, sir. Undoubtedly there are differentials from province to province. There may even be differentials between settlements signed in the different municipalities which cover highway operations out of those municipalities. In the big, heavily unionized provinces, usually the labour negotiations with the teamsters union are carried on by a committee, or bureau, of operators through a board of directors which deals collectively with the union and signs

the collective agreement. There is, for example, attached to the Automotive Transport Association of Ontario, a motor transport industrial relations bureau with a full-time staff. Mr. Goodman could tell you how it operates.

They are the people who deal with the teamsters union on behalf of the substantial for-hire truck operators in Ontario.

Mr. CHOWN: Are you making recommendations to cabinet on behalf of your industry in respect of a specific term, or terms of reference for the royal commission?

Mr. MAGEE: No, sir. It is not our intention to make any recommendations to the cabinet on the terms of reference of the royal commission; but whatever are the terms of reference, we are prepared to do our full part in any way we can to assist in the inquiries.

Mr. CHOWN: Would this not be a good idea in order to assist the cabinet?

Mr. MAGEE: I think our feeling is that it might seem a little presumptuous, coming from a private organization, to suggest the terms of reference for a royal commission inquiry.

Mr. CHOWN: My only reason for saying that is the cabinet is seized with the problems in detail as regards the railways, but because you have never been associated with any government agency, such as the board of transport commissioners, there is likely to be less detailed knowledge about your industry than there is about the railways. For that reason, I thought perhaps it would not be presumptuous if you did make a suggestion along those lines.

Mr. MAGEE: Yes; I see the point. Really, the way it works out is that even if the terms of reference do not specifically mention trucking, we inevitably get thrown into these inquiries as a result of something said. Our experience with the Turgeon royal commission is an example.

At the end of 1948 after the commission was announced, but before the personnel of it were announced, we decided that the Canadian Trucking Associations would participate in the inquiry and cooperate in any way it could. When we discovered that there was no specific reference to trucking in the terms of reference, and we were so informed of that by the government at the time, we assumed it would not involve us.

However, at the regional hearings of the royal commission which were held across Canada in the summer of 1949, practically fifty per cent of the discussion which took place every day concerned the trucking industry. So we entered the hearings when the final hearings began in November and we were represented by counsel from then on right through until the end of the formal hearings in May, 1951, when the hearings ended. Based on that experience it is our intention to be represented on the first day of this inquiry.

Mr. McPHILLIPS: This subsidy which is contemplated in this bill, of course, arises because of the 17 per cent increase which was given to cover wages. Now in the railway operations increased wages were paid to those in the running trade operation of passenger trains which loses money. In your industry you do not have that disadvantage of sustaining a loss; you do not carry passengers.

Mr. MAGEE: That is correct. If there are other passenger operations being conducted at a loss, that is a situation which, I would think, undoubtedly would be examined by the royal commission and some recommendations made concerning it.

Mr. CHEVRIER: Does not much of the discussion arising in connection with your presentation and the principle which you enunciate depend upon the fact that the railways are controlled by a body such as the board of transport commissioners and you do not have a similar controlling body? Does not much of the difficulty, as between the competitive position of the railways on the one

hand and the truckers on the other, arise out of the fact that there is no control over one of the groups whereas there is a stringent, in fact very tight, control accorded to the railways over the other branch of transportation?

Mr. MAGEE: I would like to give as frank an answer as I can. I am bound in some ways by the policy of our association which remains that we prefer control by the provincial boards. In respect of the competitive operations of the railways, we say that there is no stringent control there, that the shackles or the restrictions about which the railways speak do not exist in regard to their ability to compete on a day-to-day basis with the trucking industry, and that the transport board has recognized that the railways, as competitors of trucking, must be able to meet trucking competition on a day-to-day basis.

The railways themselves have testified they can give competitive rates on the telephone if the necessity arises in respect of trucking rates. If the railways are met with some new competition by the trucking companies, they can act today without going to the board to meet that competition and file the competitive rates within, I think, three days. However they can act immediately to meet our competition both in competitive rates and in agreed charges.

Mr. CHEVRIER: I am sure most of us feel sympathetic to your position, but if we wanted to help you how could we do it unless there was some control from the federal government; and there is no control over the trucking industry from the federal government.

Mr. MAGEE: That is correct; there is no control over the trucks from the federal government, but the trucking industry extra-provincially is being controlled by virtue of federal legislation.

Under the Motor Vehicle Transport Act of 1944 it is parliament's decision that extra-provincial trucking shall be federally controlled by provincial boards really acting as agents for the federal government.

Mr. CHEVRIER: Really, all that did was to give authority to the federal government over interprovincial and international trucking; but there is no over-all body which would at the same time control railways and trucking; so how can we possibly be of any help to you, so long as you are outside the scope of federal jurisdiction?

Mr. MAGEE: We are outside the scope of regulation, but not federal jurisdiction.

Mr. CHEVRIER: Perhaps I did not make that too clear. Assume you are outside the scope of federal control.

Mr. MAGEE: Yes.

Mr. CHEVRIER: How can we be of any use to you under those circumstances?

Mr. MAGEE: Parliament has decided this is the way the control will be carried out. The jurisdiction which is federal was confirmed by the Privy Council and then Parliament said the control will be exercised by provincial boards, and when these boards are controlling extra-provincially the legal position is they are acting as federal control boards with just as much status as a federal control board if the board was actually centred right here in Ottawa. That is the position of our association, if parliament is going to continue to say that is where the control should be—with the provinces—and because it is there we cannot do anything for you, even though we have the jurisdiction and have some legal responsibility for a very large segment of the trucking industry.

Mr. CHEVRIER: You are pretty good at answering questions. Let me add this. Would not the answer be that you would have to come under the jurisdiction of the board of transport commissioners in order to get the assistance for which you are, in fact, asking?

Mr. MAGEE: Really, what we are asking for here, Mr. Chevrier—and we are realistic and know that it is not going to happen—is that we are asking that the bill not be passed; we are not asking that the subsidy be extended to us.

Mr. CHEVRIER: You have about as much chance of doing that as we have of moving over to the other side of the house.

Mr. FISHER: Further to the point which Mr. Chevrier made, in your brief you have indicated certain trends. As an example, about 25 or 30 years ago there was a trend that the insurance companies in Canada wanted insurance regulations under provincial jurisdiction. Now the majority of them want nation-wide jurisdiction. Is it not possible as your interprovincial trucking lines extend and it becomes more and more the pattern of your business, that the impetus will be in the very direction Mr. Chevrier mentioned, that is putting you into a position where the federal jurisdiction is by far the most important?

Mr. MAGEE: There is no doubt that a number of interprovincial and international truck operators in Canada are swinging towards a belief that control by a federal body would be the best form of control for trucking. The trucking industry officially as represented by the Canadian Trucking Associations Incorporated in their majority opinion still supports the principle of control imposed in the Motor Vehicle Transport Act of 1954, although shortly we are going to suggest some improvements which we think could be made in that type of control.

Mr. FISHER: But you do not deny the trend?

Mr. MAGEE: There is a trend among some of the operators for support of control by a board in Ottawa.

Mr. FISHER: If I may I would like to ask a question of Mr. Scott. Mr. Scott, are you the person who wrote this article on the cost structure of the transportation industry?

Mr. GEORGE A. SCOTT (*Director of Economics Policy Branch, Department of Transport*): No, I am not.

Mr. BELL (*Saint John-Albert*): May I ask a question which follows along the lines of Mr. Chevrier's thoughts. You said in respect of the maritime region, as revealed by the figures, that the subsidy has greatly affected the maritime competitive position, and then you made the further point, which I appreciate, about how you cannot have it both ways and how truck competition might be desirable. I am just wondering if we might take that a little bit further in the light of what you said this morning whereby you recognize to some degree the inevitability of maritime freight rate subsidies and also said you made an approach to it in the interdepartmental committee.

I realize that the maritime situation is a little bit different in this respect to the total national point of view, but I ask you do you feel you should just continue to make approaches to come under these further subsidies which you recognize, or do you have any other solution to the particular problem in the maritime region, because there is an inconsistency there.

Mr. MAGEE: Suppose we recommend that the Maritime Freight Rates Act be repealed. I think we would be very unpopular east of Levis if we did that.

Mr. BELL (*Saint John-Albert*): I realize you are just expressing yourself. What could be substituted if there were not a subsidy? Can you carry your thought further?

Mr. MAGEE: I may have misunderstood the question. I think you are referring to some alternative measure if there were an inequality in the competitive positions between the railways and the trucking industry caused by

the Maritime Freight Rates Act, and you are asking have we any proposal other than simply extending the subsidy to the truckers to bring equality into the situation.

Mr. BELL (*Saint John-Albert*): Yes. We have difficulty in the maritime provinces in getting into competition with central Canada. It presents an over-all problem.

As it affects the trucking industry, how do you propose easing this disability which we have?

Mr. MAGEE: I cannot go beyond our policy, because I am appearing as a witness for an industry. Our policy is that we ask for the extension of the maritime freight rate subsidy. We have not considered any alternative proposal nor have we settled on any alternative proposal for equalizing competitive conditions between rail and truck as regards the Maritime Freight Rates Act.

I do not have time to go into what we said in our submission to the interdepartmental committee, but we went far beyond the mere question that the railways have had it since 1927, and so we should have it too. In that submission, which is a comprehensive one, we have tried to show how we think this could benefit the maritime economy by helping to promote the establishment of a type of industry that is particularly dependent on the type of service which the truck transports can give.

Mr. BROWNE (*Vancouver-Kingsway*): I would like to go back to the question on the taxation of the users of the highways, and so on. You indicated you would make some information available at some time. I would like to get some breakdown as to what percentage the for-hire operators are of the trucking industry which is using the highways, and what the other segments of the trucking industry are in relation thereto? Secondly, there was a question asked yesterday as to how many people were employed in the industry, and you gave the answer 72,000. I would like to know how that relates to that segment of the trucking industry.

Mr. MAGEE: I have here some figures. We have made some estimates of employment in the for-hire trucking industry and in the private inter-city portion of the truck transport, that is the private firms hauling their own freight and their own vehicles. It is approximately 400,000 persons.

Mr. BROWNE (*Vancouver-Kingsway*): So that the private operators as users of the roads would be a great deal more significant than the for-hire?

Mr. MAGEE: Very definitely. You will recall the figure I gave yesterday for the for-hire truck employment, which was 72,000. The dominion bureau of statistics shows the following breakdown for truck registrations. The for-hire truck industry in Canada accounts for 5.6 per cent of the total truck registration in Canada; private inter-city trucking, 25.8 per cent; private urban trucking, 33.5 per cent; and farm trucking, 35.1 per cent.

Mr. PHILLIPS: In the past it has been suggested that a through truck highway across the state of Maine be extended into the central market of Canada. Would the construction of such a highway across Maine directly to Montreal allow you to compete more favourably with the railways?

Mr. MAGEE: I am advised the answer is yes.

Mr. PHILLIPS: I meant without a subsidy comparable to the railways.

Mr. MAGEE: I have not given any study to the question. It is a very interesting point and is something which we should go into perhaps for the royal commission.

Mr. FISHER: As a result of the figures which you gave Mr. Browne there is an indication that you are only a minor segment of the trucks using the highways, so that any consideration as to the part you play in paying your way has to fit into a much larger picture?

Mr. MAGEE: Yes.

The VICE-CHAIRMAN: Gentlemen, it is almost ten-thirty and I think we should adjourn now until three-thirty this afternoon.

Mr. BELL (Carleton): Perhaps there are not many more questions for Mr. Magee.

Mr. CHEVRIER: I think it would be a good idea to finish with Mr. Magee.

Mr. FISHER: Your organization is a federation of provincial associations?

Mr. MAGEE: Yes.

Mr. FISHER: We have had the picture of freight rate representatives of the provinces coming here making representations.

Mr. MAGEE: Yes.

Mr. FISHER: It would seem, since most of these representations would be for this subsidy very directly on the provincial level, that your association has not been successful in convincing the representatives of the provinces of the worth of your position. Is that a fair statement?

Mr. MAGEE: The provincial trucking associations in the west and in the maritimes certainly have talked to representatives of their provincial governments and have attempted to show them that if we are going to have subsidized rate reductions on the railroads, it will have a serious effect on the trucking industry in the provinces. We know those provinces want the truck competition to exist because of its salutary effect on the railway rates. We have tried to persuade the provincial governments that they are pursuing two mutually opposite objectives.

Mr. FISHER: In other words, they are trying to have it both ways. But so far you have had no success with any provincial government. I suggest you have not been successful enough to have them change their position?

Mr. MAGEE: No sir. If our understanding of what was said at the appeal on November 24 is correct, provincial governments asked for disallowance of the rate increase and its replacement by a subsidy.

The VICE-CHAIRMAN: Are there any further questions for Mr. Magee? If not, I am sure we are very grateful to him and his associates for their presentation. It has been very comprehensive. I am sure Mr. Magee has tried to answer all the questions.

This afternoon we will hear Mr. Gordon Blair, counsel for the Great Western Coal Company Limited and the Manitoba and Saskatchewan Coal Company Limited.

AFTERNOON SESSION

WEDNESDAY, April 15, 1958.
3:30 p.m.

The CHAIRMAN: Gentlemen, I see we have a quorum; will you come to order.

Our first witness today is Gordon Blair, counsel for the Great West Coal Company Limited and the Manitoba and Saskatchewan Coal Company Limited. Mr. Blair has a brief to present to you.

In connection with the brief, the member in whose riding most of these coal mines are situated is with us today. His name is Mr. Southam. Mr. Southam was wondering if it would be agreeable to the committee if he could come up to the front. He would be willing to answer any questions in regard to these coal mines. Would that be agreeable to the committee?

Mr. FISHER: This is not setting a precedent, is it?

Mr. SOUTHAM: I would just like to say, Mr. Chairman, that I am available if any members would like to question me. I want to make it clear that as the member from that constituency I would be pleased to answer any questions at this time or after the meeting is over, if you so desire.

Mr. FISHER: I made the remark facetiously.

Mr. CHEVRIER: Mr. Chairman, I would go so far as to move that the member sit up there at the head table. I can see no objection to that procedure.

The CHAIRMAN: Gentlemen, we are still on clause 1 of Bill C-38. I will now call on Mr. Blair.

Mr. GORDON BLAIR (*Counsel for Great West Coal Company Limited and Manitoba and Saskatchewan Coal Company Limited*): Mr. Chairman and members of the committee: needless to say I feel much more secure in my position here now that Mr. Southam is sitting beside me. Because of his local knowledge of the mining industry, I am sure he will be able to answer questions which I would not be able to answer.

This submission is made on behalf of the Great West Coal Company Limited and the Manitoba and Saskatchewan Coal Company Limited who respectfully make the submission on behalf of the lignite coal industry in Saskatchewan. These companies represent almost all of the production of lignite coal in Saskatchewan.

First, to summarize the viewpoint of these companies, may I say this.

The lignite industry protests against exclusion of lignite coal from the subsidy relief proposed by Bill C-38 and asks for an amendment to provide equivalent relief against the increase in rates of 22 cents per ton on lignite coal authorized by order No. 96300 of the board of transport commissioners for the following reasons:

(a) The lignite industry is faced by fierce competition from the new natural gas industry in its principal markets and its very existence is threatened by the drastic price increases and anticipated loss of business to natural gas resulting from the freight rate increase.

(b) The lignite industry has not received any benefit from subventions comparable to that conferred on other branches of the Canadian coal industry.

(c) Lignite coal is a low value commodity subject to a comparatively short haul but has received no relief from any of the successive flat cents per ton increases imposed on all in post war years.

2. Description of Lignite Industry.

(a) Markets.

Lignite coal is strip mined near Bienfait, Saskatchewan. A fairly constant production of slightly over 2,200,000 tons has been maintained since 1950. The principal markets are for industrial uses in the Winnipeg area. More than 70 per cent of the coal sold in the Winnipeg area is lignite. Other markets are in the Regina and Brandon areas, and certain pulp and paper plants at Kenora, Dryden and Fort Frances in Ontario.

Lignite coal possesses a substantial market advantage as a low cost fuel located near its principal markets; only 280 miles from Winnipeg and 155 miles from Brandon.

(b) Post war changes.

In the post war years the domestic house heating market has been preempted by fuel oil and latterly, to some extent, by natural gas. The industry by vigorous salesmanship, which included assistance to industrial users in the installation of proper heating plants, was able to develop an industrial market more than replacing the lost domestic market.

Concurrently, the companies have invested more than \$5,000,000 in new equipment since the war.

Mr. Southam has mentioned to me that within recent months a new \$1,500,000 dragline has been installed by one of the companies in the Estevan area. As a result of mechanization and technological improvements, the industry has been able to absorb successive wage increases and has only raised the mine price of coal by 10 cents per ton since 1948. The present mine price averages \$1.87 per ton.

The lignite industry by its vigorous salesmanship and technological initiative has been able to maintain its position notwithstanding the competition of premium fuels in the post war years. Its existence is now threatened by drastic increases in transportation expenses which it is powerless to control.

(c) Freight rates exceed price of lignite coal.

A peculiar and important feature of the industry is that cost of transport to its principal markets exceeds the value of lignite coal. Compared to the virtually constant mine price of \$2.00 per ton, freight rates to the largest market in Winnipeg are \$3.70 per ton for domestic coal and \$3.30 per ton for industrial coal. The latest increase of 22 cents per ton is equal to more than 10 per cent of the mine price.

This latest increase of 22 cents a ton is included in the present rates of \$3.70 and \$3.30, which I have quoted.

3. Lignite picture good if industry survives.

Expert studies, such as The Gordon commission report, agree that the outlook for Saskatchewan lignite is satisfactory. It is a low cost fuel located near industrial markets. Of particular importance, is the growing demand for thermal power. Saskatchewan lignite is in a position to satisfy the demand of large thermal power stations, erected or to be erected by Manitoba hydro at Brandon and Selkirk. If transportation costs can be held in check, lignite could supply the thermal power in these installations in preference to natural gas. On the other hand, even though the long term demand for lignite might be assumed to be satisfactory, it will avail little if the producing companies are not able to maintain their present markets and to survive to enjoy it.

4. Competition of natural gas.

Since the greater part of the lignite market is industrial, it is extremely vulnerable to the competition of natural gas. It is a well-known feature of the natural gas industry that gas is offered for sale at low prices for industrial users in order to build up volume in a new natural gas pipe line or distributing system. As and when higher priced domestic markets are developed, low prices gas ceases to be available for industrial users. All proper steps should be taken to prevent the lignite industry from being destroyed by the initial competition of natural gas so that it can survive to enjoy the brighter future which expert opinion predicts is in store for it.

Already some large accounts have switched from lignite to natural gas. As an example, one paper mill representing something like 5 per cent of the industry's total production, has been lost. The industry could not survive many losses of this order. While the lignite industry is fighting to maintain its position, its competitive strength is gravely weakened by uncontrollable increases in transportation cost. The last 22 cents per ton increase is the equivalent of almost 2 cents per mcf of natural gas.

I may say in the Winnipeg-Brandon area natural gas is being offered to industrial users at about 30 cents per thousand cubic feet.

The failure of the lignite industry at this critical stage to obtain any relief from the recent increases will, it is feared, have an adverse effect on its customers and further strengthen natural gas competition.

5. Subventions do not apply to major lignite coal movements.

While the lignite industry supports the aid extended to other branches of the coal industry in the form of subventions, it receives little assistance itself.

In round figures only 275,000 out of the total tonnage of 2,200,000 produced by the lignite industry, benefits from subventions. The subvention applies only to tonnage that moves beyond the Manitoba-Ontario boundary.

The amount paid to the lignite industry was \$247,000 or less than 85 cents per ton, subject to subvention. This is the tonnage delivered to pulp and paper mills in northwestern Ontario. The bulk of the industry's sales which occur in the provinces of Saskatchewan and Manitoba do not qualify for subvention.

The substantial subventions paid to other branches of the coal industry have been referred to as one reason for not extending the benefit of the Freight Rates Subsidy Act to coal. The Minister of Transport on April 9, 1959 referred to subventions as follows at page 2394 of *Hansard*, and I quote:

"Assistance to coal and coke is given in the form of subventions, and to show how those subventions have been increased, for instance, during the past two years, I will give the comparative figures for the years 1956 and 1958. In 1956 the average subvention paid per ton was \$2.67. In 1958, the average subvention per ton was \$3.15. This shows that there has been an increase of 48 cents per ton during those two years, or an increase of 18 per cent.

Subventions paid during the calendar year 1958, by regions were as follows: In the maritime regions, that is in the provinces of Nova Scotia and New Brunswick, the amount was \$8,546,041. In the western region, that is the province of Alberta and the Crowsnest area of British Columbia, the amount was \$667,000.

On March 17 last the Prime Minister announced in the house that the federal government would pay an additional \$500,000 in the form of subsidies to maritime coal this year. The government also recently announced the payment of an additional 50 cents per ton on 100,000 tons of Alberta coal which has been shipped to Japan, and this additional subvention was paid to make possible the sale of that quantity of coal.

I noticed yesterday that in reply to a question Mr. Knowles also mentioned the subventions as being one reason why there was no need for further relief for coal under this act.

The extent of present and future subsidies payable for maritime, Alberta and British Columbia coal overshadows the small subventions paid on lignite coal. In addition, the average subvention paid per ton is more than three times greater than the subvention paid on the small tonnage of lignite coal subject to subvention.

It would seem unfair to deny one branch of the coal industry relief from freight rate increases because of the special subventions paid to another branch. Moreover, it might appear advisable, in the national interest, to attempt to maintain the lignite industry in a reasonably sound economic position by the extension of the general freight rate subsidy to it. This alternative would appear more attractive than attempting later to shore up a near broken industry by subventions and other measures of special relief.

Sixthly, Lignite is denied the natural advantages resulting from low cost and favourable geographical location.

The flat increases of so many cents per ton, applied on all coal, regardless of its value and the length of haul, have been particularly onerous for lignite coal. The unfairness was recognized by the Board of Transport Commissioners in its decision in the 15 per cent case on December 27, 1957, when it applied an increase of 6 cents per ton on all coal except lignite. The board stated in its judgment as follows:

"This commodity—that is lignite coal—is an article upon which the board itself in the western rates case of 1914 prescribed rates 10 per cent lower than on Alberta coal. This base has been disturbed over the years by applying the same increases to lignite coal as to higher value bituminous, sub-bituminous and anthracite coal. We believe the point has been reached where a difference in treatment of lignite coal versus other types of coal should be restored.

The board considers, therefore, that no further increase should be made at this time in the normal rates on lignite coal, but that the increase of 18 cents per ton already permitted should be allowed to stand."

Subsequently the cabinet rescinded its decision and in the later 17 per cent case the board refrained from differentiating between lignite and other types of coal for the reason, among others, that it considered all types of coal should bear the special charges for wages which occasioned the increase. The board's decision read in part as follows:

"The board considers that there is not the same justification now that there was at the time of the last judgment for the board to establish lower rates on Saskatchewan lignite coal than on Alberta coal, and that, at least for the purposes of this interim judgment, coal traffic should bear a share of the burden of the increases in labour expenses without difference of treatment as regards different kinds of coal."

From this it would seem that the board considered that under less emergent conditions, more careful consideration would have been given to the position of lignite coal. The fact that the board felt impelled to deal with lignite on this basis is an added reason for extending to it the benefit of a temporary subsidy designed to overcome the hardship resulting from the board's last decision.

Equally serious is the fact that the cumulative effect of the flat percentage increases applied on short-hauls has interfered gravely with the natural geographical advantage which lignite coal should enjoy in the Winnipeg and other markets. The inequities and distortions created by the flat increases have seriously affected the competitive position of the industry.

Next I would like to deal with special considerations regarding thermal power.

Special considerations regarding thermal power.

The possibility of selling large quantities of lignite coal for the generation of thermal power at Brandon and Selkirk in Manitoba have been referred to. For one plant alone the estimated tonnages have been over 160,000 for 1959 and 320,000 for 1960. Apart from the danger of natural gas competition, this type of market is imperilled by another development. Arrangements have been completed for direct power sales by Saskatchewan to Manitoba. Thus, unless coal transportation costs are kept in line, it is possible that movements of coal to these new thermal power units may never commence.

Finally, I would like to summarize this argument as follows:

Conclusions.

The lignite industry has been able to maintain its business and its solvency notwithstanding all the problems which have beset the coal industry in post-war years. Until now the industry has received no relief against the inequalities created by the application of flat per ton increases against its low-priced product moved over short hauls. In addition, the industry has not received any substantial assistance by way of subvention, comparable to that given to other branches of the Canadian coal industry. The lignite industry is now faced with the competition of the natural gas industry which is seeking to build up its volumes by quantity sales at low prices to industrial users of lignite. The competitive position of the lignite industry has been undermined as a result of the heavy increases in transportation charges which it has had to pass on to its customers. At this critical time the lignite industry perhaps stands more in need of relief against freight rate increases than almost any other industry in Canada. It is therefore respectfully submitted that it should be accorded relief under the Freight Rate Subsidy Act, equivalent to that proposed for shippers paying ordinary class and commodity rates. Thank you.

The CHAIRMAN: Gentlemen, you have heard the brief. Have you any questions to ask the witness?

Mr. DRYSDALE: Mr. Chairman, I notice that it says on page 6 of the brief that subventions do not apply to major lignite coal movements. Why are the subventions only applied to 275,000 out of 2,200,000 tons?

Mr. BLAIR: I do not know the policy reason, but the fact is that on movements of western coal the subvention only applies to coal which crosses into Ontario, and then it is a payment of \$1 per ton or 20 per cent of the freight rate, whichever is the lesser.

Mr. FISHER: Which pulp mill is it that has switched to natural gas?

Mr. BLAIR: The new pulp power unit at Dryden.

Mr. FISHER: Have you ever been able to get down as far as the lakehead in recent years with your lignite coal in competition with coal coming up the other way?

Mr. BLAIR: No, we have not. The closest we are to the lakehead is Fort Frances.

Mr. FISHER: Have you ever made an estimate of how much help it would give you if this particular subsidy applied to you?

Mr. BLAIR: Very roughly. We have a movement of 2,200,000 tons and the freight rate increase amounted to 22 cents per ton; so that if all of that was given back, it would be approximately \$484,000. If half of it, it would be \$242,000, and so on.

Mr. FISHER: Are there any of the people who take your lignite who have any agreed charge arrangement with the railways?

Mr. BLAIR: Yes. We have several agreed charges in effect. One of the most important is the agreed charge recently negotiated to Fort Frances.

Mr. FISHER: Is there any possibility of that particular arrangement being extended and so obviate the need for this subsidy?

Mr. BLAIR: Yes. There are negotiations in progress between the railways, the companies, and some of the companies' customers.

Mr. FISHER: Are the agreed charges which have been made below the rate that generally applies?

Mr. BLAIR: Yes, the agreed charge to Fort Frances is well below the ordinary rate.

Mr. FISHER: Has there been an indication from the railways that the agreed charges compensate them for the haul?

Mr. BLAIR: Yes. I am sure they would not have entered into them if there was not compensatory.

Mr. FISHER: In other words these rates which do apply with these raises have been profitable to the railways?

Mr. BLAIR: Yes. We have argued before the board on several occasions that the lignite coal rates are highly remunerative to the railways because it is a short movement and is carried in train load lots.

Mr. FISHER: Is it in no sense in competition with Alberta coal?

Mr. BLAIR: No; fortunately for Alberta coal we are not. They have been virtually excluded from the Winnipeg market because of other circumstances.

Mr. CHEVRIER: In the beginning of your brief you say there has been no relief from any of the successive flat cents-per-ton increases. Does that mean in the 17 per cent case you got no relief?

Mr. BLAIR: Do you mean the most recent increase?

Mr. CHEVRIER: Yes.

Mr. BLAIR: No, we were given the same 22 cents per ton which applies to all higher valued coal produced and shipped in Canada.

Mr. CHEVRIER: Then what is meant by the sentence "... has received no relief from any of the flat cents per ton increases imposed on all coal in post war years".

Mr. BLAIR: What I mean by that is we never have been able to make the argument stick before the board of transport commissioners, or other tribunals, that as a low valued commodity moving over a short haul we should have received a lesser increase than the same charge per ton put on other coal.

Mr. CHEVRIER: But you did get the increase which was authorized for coal and coke?

Mr. BLAIR: Yes.

Mr. CHEVRIER: On what classification of rates does the coal move—normal commodity?

Mr. BLAIR: I think they would be properly described as commodity rates. Mr. Knowles nods his head.

Mr. HORNER (Acadia): I have a question which I want to clear up in my own mind. Are the coal mines in the eastern part of Alberta, mainly around Sheerness, the strip mines a subsidiary of this Great West Coal Company at Estevan?

Mr. BLAIR: I think they are. I know they own some coal mines in Alberta and I think Sheerness is the place.

Mr. PASCOE: Mr. Chairman, as a member from Saskatchewan I would like to compliment Mr. Blair on his presentation. In looking it over I see it says the lignite industry protests against the exclusion of lignite coal from the subsidy relief. Have you made application to the board of transport commissioners before presenting these facts and, if so, what was their reply?

Mr. BLAIR: I am afraid the board might say we have been rather constant attenders at their various hearings.

Mr. PASCOE: I mean in respect of what you have here now?

Mr. BLAIR: We were present at the 1958 case, the case which was decided last autumn and the board ruled we were entitled to no special treatment as compared to other shippers of coal. We did not make any appeal against that ruling to the board or the cabinet because our position was obviously fixed by that decision.

Mr. PASCOE: Further down you mention that you asked for equivalent relief. Have you made any estimate how much that would amount to?

Mr. BLAIR: Mr. Fisher asked we what the figures might be and I gave a few of them. If we got the full amount back it would be something like \$484,000 in a full year. Half of that would be \$242,000 and if we were getting it in the same proportion as is contemplated under the general reduction it would be in the order of \$170,000 to \$180,000.

Mr. CHEVRIER: If you got relief from the time the subsidy act comes into effect for a year, how much would it amount to?

Mr. BLAIR: It would all depend on the formula, but I suppose if it were more or less equivalent to the type of relief being given other shippers it would be under \$200,000.

Mr. BALDWIN: Approximately how many persons are employed in this industry?

Mr. SOUTHAM: I would say roughly around 300.

Mr. BALDWIN: On page 6 you say one paper mill representing something like 5 per cent of the industry's total production has been lost. Does that come about simply because of the competitive position of natural gas, or has it anything to do with the flat rate increase of 22 per cent?

Mr. BLAIR: It is really because of the better competitive position of the other fuel.

Mr. DRYSDALE: Mr. Chairman, in the annual report of the dominion coal board, 1957-1958 they state the following at page 20 with reference to subventions:

The Saskatchewan industry was in a reasonably healthy condition and did not appear to qualify for further subvention help at that time.

I notice in the report of the board of transport commissioners, order 93600, that they state the situation was different at that time on lignite coals but perhaps I might read this and then ask for Mr. Blair's comments:

However, the facts are not the same now as they were then. The increases authorized by that judgment were disallowed by the governor in council; the position of the coal industry in Alberta has worsened because of economic factors; the increases in railway labour expenses apply to the carriage of all traffic and to Saskatchewan lignite as well as to Alberta coal; and increases in freight rates being authorized at this time are by way of interim relief in consequence of such labour expenses. The board considers that there is not the same justification now that there was at the time of the last judgment for the board to establish lower rates on Saskatchewan lignite coal than on Alberta coal, and that, at least for the purposes of this interim judgment, coal traffic should bear a share of the burden of the increases in labour expenses without difference of treatment as regards different kinds of coal.

Have you any comment on those observations of the board?

Mr. BLAIR: First, it is true that the Saskatchewan lignite industry is not in the same condition as is most of the coal industry in Canada; but the writing is on the wall for it unless it is vigilant in protecting itself against this kind of transportation charge increase which will deprive it of its market. Without any disrespect to the other parts of the coal industry which are in an unfavourable position, we do not want to be put in that position. That is why the industry has taken part in all the recent hearings of the board of transport commissioners, simply to protect itself against the transportation increases which are the uncontrollable element in its selling price to its customer.

Mr. DRYSDALE: Are you contending the determining the factor is the amount you would have to pay in freight rates? In other words, that would determine their choice to convert perhaps to natural gas or some other fuel?

Mr. BLAIR: I venture to think there is no other industry in this country where the only increase in the price of its product has been ten cents in ten years.

Mr. DRYSDALE: As a point of interest, what is the selling price of lignite coal?

Mr. BLAIR: Two dollars a ton on the average at the mine.

Mr. DRYSDALE: But what is the final selling price with the freight rates and everything added on.

Mr. BLAIR: Two dollars plus the freight rates. There is so little of a domestic market where you put it through middlemen that it does not count. We sell direct to the user of the coal.

Mr. FISHER: At the time of this judgment was the board cognizant of the competition appearing with the development of the trans-Canada pipe lines.

Mr. BLAIR: Oh, yes. I am sure they were.

Mr. FISHER: I would like to ask Mr. Southam his intention with regard to this matter. I wonder if he plans to bring in an amendment to the committee in connection with this particular matter which would extend the benefit of this subsidy to the Saskatchewan lignite industry.

Mr. SOUTHAM: Might I say in answer to Mr. Fisher first of all that I would like to compliment Mr. Blair on his presentation of this brief, and to thank the chairman as well for the privilege of allowing me to sit in on this. I feel quite at home on this subject because it is right on my doorstep, so to speak, in my riding. I would like to suggest that if this 22 cents per ton of freight rate comes into effect, it would probably break the camel's back as far as this industry is concerned.

I have been watching these people for a number of years, and I know that through technological and scientific improvements they are trying to meet competition. I was over there last year when I saw one of the four largest drag lines on the North American continent put into operation.

Mr. Blair suggested that it cost \$1,500,000; but as a matter of fact, they put in facilities to handle freight cars and the result was that it cost \$1,850,000. They shipped in enough cars to bring it up to \$2 million. They were optimistic when the technological people said that they could come down to a 90 foot seam and that they could compete with natural gas.

There is another feature to it. We have a very big development of natural gas and oil on our doorstep. Steelman developed and put into operation a \$10½ million gas extractor last year, and that industry is now coming into the domestic market. They are supplying Estevan and a large area adjacent to Bienfait. They are coming right down the line to the immediate towns along the international boundary. That is providing real competition to the coal industry.

This last particular increase is something which I do not think they were anticipating. I think that is why they asked Mr. Blair to make this representation. I am in sympathy that some consideration should be given to that industry. I have not gone so far as to suggest an amount however.

Mr. PASCOE: Recently we have heard a lot about trucking. I wonder if Mr. Blair could tell us if there is an alternative form of shipping out in competition with the railways?

Mr. BLAIR: My understanding is that apart from trucking it five or ten miles from the mine, it is not an attractive product for haulage by truck.

I do not think there is ever any prospect of competition by trucks in the way of bringing railway freight rates down.

Mr. PASCOE: The railways are doing practically all the hauling of that coal?

Mr. BLAIR: We have said that this is a "captive market" so far as the railways are concerned.

Mr. PASCOE: I did not catch all the answers given to Mr. Fisher in regard to agreed charges. Is most of that coal shipped on agreed charges?

Mr. BLAIR: No; I think somewhere upwards of 25 per cent is shipped on agreed charges.

Mr. PASCOE: I have one more question: there is a suggestion in the bill that this relief would bring the percentage increase down to around 10 per cent if lignite coal was granted the relief they are asking for. What effect would that have on the percentage of decrease, or the decrease of percentage increase?

Mr. KNOWLES (*Commissioner, Board of Transport Commissioners*): Do you wish me to answer that question, Mr. Chairman?

The VICE-CHAIRMAN: If you please, Mr. Knowles.

Mr. KNOWLES: It all depends on how far you go in this coal situation. If you can confine it to lignite, you would have only a very small difference in the percentage. It might be 6.8 per cent instead of 7 per cent. But I cannot concede that you could hold it. I would think that the province of Alberta would ask for the same thing; and then you would have the Nova Scotia people asking for the same thing. They are all recipients of about \$1½ million a year, and I estimate it would be about 10 cents a ton in line with that, making \$17.10. That would be about \$1½ million.

In addition to that, or included in that, there is a large amount of American coal which is brought in by water to points such as Toronto, Kingston, Montreal and Belleville, which could not be excluded in the tariff from the reduction. So you would be handing out half a million dollars to American coal which would be included in the \$1½ million I have mentioned. If you do that, and if the government changed the bill and said you must take 10 cents a ton off all coal, the remaining reduction would be between six and six and one half per cent on the other traffic.

Mr. BELL (*Saint John-Albert*): Do we have knowledge of any other type of small operation like this coal, or otherwise, that is excluded from this subsidy, or even benefited by it?

Mr. BELL (*Saint John-Albert*): Let us talk about coal first.

Mr. KNOWLES: You mean under the coal? Are you talking about coal?

Mr. KNOWLES: I do not know of any small individual operation on coal other than in Saskatchewan. It may be, I would say, that the Alberta industry is very much greater. Possibly the British Columbia industry, referring to Vancouver island, is about the same as that of Saskatchewan. I do not know the exact tonnage. But when you come to eastern Canada, there is a tremendous difference in the tonnage produced by the mines in Nova Scotia, as compared to the mines in Saskatchewan. So it would be a very large matter as far as the Nova Scotia and New Brunswick people are concerned.

Mr. BROWNE (*Vancouver-Kingsway*): I suppose it is difficult to answer the question regarding other types of industry because they are so widespread, but I wondered if there was an undertaking to isolate a big industry like this that seemed to have difficulty?

Mr. KNOWLES: You have a tremendously large number of different types of industry in Canada. I have no doubt there are plenty of them in a small way.

which could make some sort of score. I do not know what they are. It may be the stone industry, or the lumber industry. I would not know. It is a subject which is too broad about which to give a general answer. I just happen to know about the coal industry because I have had a great deal to do with it over so many years.

Mr. BELL (*Saint John-Albert*): It might be reasonable to suppose that there would be some other industries in which the main parts come under this subsidy, but there is a big exception in a case such as the lignite industry here.

Mr. KNOWLES: All other industries are going to get some percentage of reduction if they have normal rates.

Mr. BELL (*Saint John-Albert*): They are all going to get it except this lignite industry.

Mr. KNOWLES: Yes. The coal industry is the only one which is excluded from this bill, where the normal rates have been increased by 22 cents per ton.

Mr. BELL (*Saint John-Albert*): They are all going to get it except this companies affected which, for various reasons, have not been able to make representations as has been done here today, or if there are any others which may be affected?

Mr. KNOWLES: I do not see why other industries would want to come here if they are not being affected, because if they are paying the 17 per cent increase they will get a seven per cent reduction.

Mr. BROWNE (*Vancouver-Kingsway*): Am I right in thinking that this 22 cents per ton increase is based on the number of miles the commodity moves?

Mr. KNOWLES: That is right.

Mr. BROWNE (*Vancouver-Kingsway*): Are there any figures on it in relation to the problem as it affects the coal industry? Do you have any figures particularly about it in relation to other industries, and whether the rate is excessive in that regard? Do you have any figures relating to that?

Mr. BLAIR: It was my general impression after some work that I did some years ago—I cannot recall the mileages—I think it is fair to say that it is generally accepted that this particular branch of the coal industry is closer to its markets than almost any other. Perhaps Mr. Knowles would have some comments on that.

Mr. CHEVRIER: What would be your reply to Mr. Knowles' statement, that if this is opened up to lignite, then we will be faced with a similar position taken by all other coals, such as American coal and so on?

Mr. BLAIR: Our reply to that is this: this is something that lies entirely in the lap of the government or of the parliament of Canada.

If it is agreed that the benefit of this subsidy should be given to the domestic Canadian producers of lignite coal, it does not carry with it the necessary conclusion that that subsidy must also be given to American coal.

These coal rates are all set out in a special tariff, and if you establish particular rates for the movement of lignite coal from Estevan to Winnipeg, it would certainly create no change in the freight rates of coal moving from Ohio to Ontario.

Mr. CHEVRIER: You think because of the local or regional nature of this activity that it deserves to have special consideration?

Mr. BLAIR: That is our contention.

Mr. DRYSDALE: I shall refer again to the dominion coal board annual report for 1957-58 at page 21, where they said:

At its January 1958 meeting the dominion coal board considered in detail the situation in each of the coal mining areas of Canada. An

attempt was made to see the problems peculiar to each district in relation to changing patterns in the utilization of energy and also in relation to the recession from the high level of economic activity of the past few years. This was the picture:

In western Canada the bituminous coal mines of Alberta and the Crowsnest pass district of British Columbia had lost a large proportion of their former markets through railway conversion to oil-fired and diesel locomotive propulsion. There seemed little hope of extensive new markets in the west itself while oil and natural gas remained in large supply at relatively low prices. Subvention was already available to make the mountain coals competitive in the western parts of Ontario, but to have extended the competitive areas to cover all of Ontario would have required subventions ranging up to \$9 or more per ton. Looking at it another way, in terms of employment provided for coal miners, one day's addition work for a miner, who in this region averages four tons of coal a day, would have needed an expenditure of \$36 in subventions. Another difficulty is that the majority of industrial furnaces in central Canada are designed for somewhat different types of coal. New equipment would be needed to achieve full efficiency with western coals. The hope of new markets obviously lay elsewhere. The Japanese were interested. Negotiations, in which the coal board and the producers were working together closely, were already under way in an attempt to establish a substantial market in Japan.

There is no foreseeable large new market for the Alberta sub-bituminous coals except where very low cost production by strip-mining methods makes their cost per million BTU as low as that of natural gas or oil.

The situation in the Saskatchewan lignite fields was relatively good. Production costs are the lowest in Canada. The price of the coal enables it to be competitive with natural gas in the industrial markets of Manitoba and Saskatchewan. Additional thermal electric plants in Manitoba were being designed to burn lignite, although they might also burn some gas. The existing subvention was adequate to enable a substantial quantity of Saskatchewan lignite to move into Ontario for industrial use.

And the question which follows from that is: if the dominion coal board does not feel a subvention is necessary and in view of the fact their meeting was in January after the freight rate decision, what justification can you give for effecting a subsidy to the lignite coal through a portion of this \$20 million freight subsidy?

Mr. BLAIR: I think my clients would hope the description given of their position would be true, but they would regard it as very optimistic. To answer the other branch of your question, when this report was written it had no reference at all to the fact that subsidy relief might or might not have been given against the most recent freight rate increase. I can only repeat what I have said before, that this industry is not coming here on its hands and knees. Fortunately, it is not in the terrible economic condition of other branches of the coal industry in Canada. However, it is only selling 2.2 million tons per year and if it loses any substantial part of its present market, it is going to go under.

Mr. DRYSDALE: The meeting was held in January, 1958.

Mr. BLAIR: Yes, January, 1958.

Mr. DRYSDALE: And at that meeting which was held in January, 1958, the dominion coal board considered in detail the situation in each of the coal mining areas in Canada.

Mr. BLAIR: I am not with you.

Mr. DRYSDALE: When was the increase?

Mr. BLAIR: The increase was in November or December, 1958.

Mr. DRYSDALE: I am sorry; I stand corrected then.

Mr. BLAIR: The optimistic survey they gave, of course, was based upon the condition of more than a year ago when we had been successful in withstanding this most recent increase.

Mr. FISHER: It seems to me the Achilles heel of your argument is the fact you have a subvention going into Ontario at the present time and that keeps you from being classified as distinct from the subvention for the relief of the Alberta and Nova Scotia coal. It seems to me that the main point in your favour is that you are a coal industry that can be isolated and examined as an economic unit. Would it be possible to drop the subvention into Ontario and pick up the adequate relief from this particular measure?

Mr. BLAIR: I am afraid I do not quite follow the reason why we should.

Mr. FISHER: The argument Mr. Knowles presented is against your getting this particular thing so that it would have to be applied to the whole coal industry since at the present time, like all the other parts of the coal industry, you get a subvention. At least, this is what I take to be his argument and, therefore, if you were selected as a special case, the other people would have a similar right to the cutdown.

Mr. CHEVRIER: In other words, would you drop the subvention for relief under this act?

Mr. HORNER (*Acadia*): You would lose money on it?

Mr. BLAIR: I do not follow the suggestion made by Mr. Fisher. The freight rates and subvention have been dealt with somewhat differently. After all, the scale of subventions in the movement of maritime coal is pretty high. I am told it goes up to \$5 or \$6 a ton. We get a small subvention for a small movement of lignite coal which happens to go across into Ontario. However, our main market lies within the western region and we are simply asking this committee to consider that we should be relieved of some part of the freight increase to protect us in our main market.

Mr. FISHER: As I understood Mr. Knowles' argument, if this was extended to you, it would open up demands from the rest of the coal industry, and so far as the government is concerned that would seem to me to be a very powerful argument against giving it to you.

Mr. BLAIR: Well, I would like to make this suggestion, and I know we are getting into the realm of policy. We have made only a presentation, for your consideration, on behalf of lignite coal. But I have also stated that there is no particular reason why an extension of the subsidy to lignite coal should be applied equally to American coal moving into other parts of Canada. And then perhaps the government of Canada might well consider that the scale of relief also granted to maritime coal by way of subventions is such that it does not make it necessary to pay any more. After all, both the Minister of Transport and Mr. Knowles and others who have spoken on this have suggested that the reason for not giving any further relief to coal was due to the tremendous scale of subventions granted. Now, we have said that we do not share in this subvention benefit in any way comparable to other parts of Canada and, therefore, an injustice has been done in a sense to the producers of lignite.

Mr. FISHER: I would like to ask the Minister of Transport whether the lignite coal industry in Saskatchewan was considered when this bill was drawn up?

Mr. HEES: No. The coal in various parts of the country received subventions in accordance with the need. For instance, as you know, more recently in order to make it possible for over 100,000 or 150,000 tons of Alberta coal to be sold to Japan it was necessary to increase the subvention by 50 cents a ton. We did that to make the sale possible. Provinces are paid according to the need. If it is shown that it is necessary, they will be paid. If your particular coal industry does not receive much in the way of subventions, it is because you do not need it. Actually, I have gone into this plant and I know how much cheaper it is to produce your coal. I have inspected your operations and have seen the tremendous shovels that are used to dig it out of the ground. Because of the costs involved, you do not need the same assistance as other people, who might have to go very deep down in the ground, to sell your coal. That is why you do not get it.

Mr. FISHER: Are you indicating then that the giving of subventions is easy enough to receive and that that would be the proper place for this particular industry to turn to?

Mr. HEES: Yes.

Mr. DRYSDALE: Is not the maximum subvention \$4 a ton?

Mr. BLAIR: The subventions are all on different scales for different types of coal. The maximum applicable to lignite is \$1 a ton.

Mr. HORNER (*Acadia*): I would like to commend Mr. Blair on his presentation; he has put up a good argument. However, there is one thing on which I am not clear. You spoke of the Manitoba and Saskatchewan Coal Company when I asked you a question earlier. Is Sheerness in the eastern part of Alberta a subsidiary of this Great West Coal Company; I think it is. Are you drawing a line down the border of Saskatchewan and saying that only the coal companies operating on the east side of Saskatchewan should receive consideration?

Mr. BLAIR: I am glad you asked that question, and the answer is that sufficient unto the day is the evil thereof. One of the companies I represent either directly or through a subsidiary, owns strip coal mines in Alberta and we are here making arguments on behalf of the Saskatchewan industry because the position which it now faces as a seller of industrial type lignite coal in competition with natural gas is so critical.

Mr. HORNER (*Acadia*): Along that same line,—and the reason I bring it up is that there was up until last fall two coal companies operating in the Sheerness area with 100 workers engaged in strip mining. They have a big electric shovel, and all the rest of it. I am not saying that it is as big as in Estevan; but last fall one had to shut down frequently on account of markets and the fact that natural gas was going into the city of Saskatoon. I would make reference to the mines at Sheerness because they are in my constituency, but there are others in the southern part of the province. They are all producing coal which I think would qualify under lignite, and I think they should receive consideration. A lot of their coal goes into the northern part of Saskatchewan by rail.

Mr. BLAIR: Well, there is one comment I wished to make in answer to an earlier question by Mr. Drysdale, and it refers to what you say. In terms of the most recent board judgment, it would appear that we in Saskatchewan were at odds with the coal producers of Alberta, which is not the case. We are trying to protect this industry against natural gas competition; and the position we took is, if the Alberta people have the same difficulty, and I am inclined to think they have, there is no reason why they should not possibly also receive the same type of consideration. We would not oppose it.

MR. HORNER (*Acadia*): I wanted to make it clear as to whether you were speaking directly for the lignite coal company operating in Saskatchewan or for those operating in western Canada. When people refer to the coal in Alberta, they generally refer to the coal in the Crowsnest pass area, even the coal at Drumheller. The coal, particularly at Sheerness, is of a lower quality than that at Drumheller, and I think it would qualify under lignite.

MR. BLAIR: I always felt the people of Alberta would never admit they produced a coal as cheap as lignite; they call it sub-bituminous.

MR. HORNER (*Acadia*): I was interested in the price. They have not sold any to me at \$2 a ton, but they sell for just a shade better than \$2 a ton in carload lots going into Saskatchewan.

MR. PASCOE: I have two questions. What railway hauls most of this coal; and is it a fair question to ask would that railway support your application for relief on the grounds of more business?

MR. BLAIR: In answer to your second question, Mr. Pascoe, I hope they would, because there is a mutuality of interest between the coal company and the railway. They will not make a nickel transporting natural gas. My feeling is that more of this coal is transported on the Canadian Pacific Railway than on the Canadian National Railways—and I have a nod from a railway official who tells me that is the case.

MR. SOUTHAM: I think we should emphasize point 5; subventions do not apply to major lignite coal movements. This subvention that has applied has only been on 275,000 tons, which is only about 10 per cent of the total lignite movement. It was just quoted in regard to the movement from the eastern Manitoba boundary into Ontario.

MR. BROWNE (*Vancouver-Kingsway*): I wonder if I might have Mr. Knowles' comments on the question I asked earlier. Perhaps he could give some of the reasons why the 22 cents applies regardless of the mileage that is involved and why some of the other coal is receiving some of the same subventions when they might be better able to stand the 22-cent increase.

MR. KNOWLES: Well, that goes back a long way, to 1917, when the railway companies applied through the board for a 15 per cent increase on all freight rates, including coal. After hearing all sides the board at that time decided that in view of the vital necessity of the people of Canada and the kind of climate we had, they would impose the smallest possible increase they could look in the face and, instead of giving the railways 15 per cent—which, true, would have made a small increase on the low rate, but a very big increase on a high rate of, say, \$4 or \$5 a ton—decided in their wisdom that they would only allow 15 cents per ton on all. "Let everybody suffer alike—a 15 cents increase".

In all increase cases since that time the railway companies have followed that lead set by the board and they only apply for flat increases; they do not apply for percentages on coal. The same thing applies in the United States; all the rates on coal within the last 15 or 20 years have been increased by flat allowance. After the last increase, the high increase, where coal was increased 40 per cent, it was only increased 20 cents per ton in Canada.

We are giving very great consideration to the coal industry all through these increases, and I might point out the average rate on coal in 1957, shown by the waybill study, is 3.36 cents per ton. The 22 cent increase on that is 6 per cent, instead of 17 per cent. That was another reason why I think that coal was not given much consideration in connection with this subsidy; it was because of the low increase it has already and the fact that most of it is subsidized today.

Mr. BROWNE (*Vancouver-Kingsway*): Would you not feel that over a long period of time successive flat amount increases—if one particular segment of the industry had a very short haul in relation to the rest of the industry—that would tend to discriminate between them?

Mr. KNOWLES: It may tend that way. We have rates now of 30 cents per ton and 50 cents per ton on regular coal. That rate has gone up 10, 20, 30, 40 cents per ton each time there has been an increase, and we only had that one complaint from the whole of Canada about this flat increase on coal.

It is quite easy for the board to abandon this practice and say that in future we will give a 10, 20, 25 per cent increase on coal; but we would have far more complaints about that than we have under the present situation.

Mr. FISHER: Is part of the complaint based upon the fact that the lignite coal shipped from Saskatchewan is of much lower value, and therefore the 22 cents applies more viciously to them than it does to the higher value coal of, say, Alberta?

Mr. KNOWLES: That is one of the complaints. But there is also coal in Alberta of the same quality, that has the same B.T.U.'s in it and also sells for \$2 a ton. But I grant you, the value of all coal in Canada is much higher than \$2 a ton.

Mr. FISHER: This does underline their particular weakness in competitive terms?

Mr. KNOWLES: That is just a matter of argument. It depends how much it costs to produce that coal.

Mr. CHEVRIER: Has the board jurisdiction to take a situation such as that into consideration?

Mr. KNOWLES: The board has jurisdiction to take any circumstances into consideration in fixing rates, and it usually does take all the circumstances into account. It did so recently in Saskatchewan, which has a 10 per cent lower mileage scale than Alberta because of the value of the coal. On the original rates case in 1914, there was a general attack on rates in western Canada. As a matter of fact, the original rates made by the railway were lower, and the board continued that practice and they just made a 55 per cent of the tenth class rate on Alberta coal and 50 per cent on Saskatchewan coal, leaving a difference of 10 per cent between them.

Mr. BELL (*Saint John-Albert*): I wonder if I could ask Mr. Knowles a question, Mr. Chairman. In connection with your first comment about American coal it was said that it might be possible in some way to restrict the subsidy, or make it possible for the subsidy to be payable to domestic Canadian users, or something of that nature. I was wondering if you would mind commenting further on that and say whether that would be possible, or how involved we would get with that type of restriction?

Mr. KNOWLES: It is a matter of opinion, and it is my opinion that you cannot make a distinction. Coal comes in by water from Nova Scotia to Prescott, Ontario. It comes in from the lake area on the American side. The coal is put on the dockside. Sometimes one shipment is put on top of another and we are having trouble distinguishing them.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. BLAIR: Mr. Chairman, I wonder if I might be permitted to make a comment on what Mr. Knowles has said. The original 1914 ruling of the Board of Transport Commissioners recognized that lignite was a less valuable coal than other types of coal and it prescribed a rate for lignite which was 10 per cent below that of ordinary coal. Over the years this 10 per cent differential has been eroded away by these flat cents per ton increases, and

in 1957 the board did apply a hold-down on lignite, somewhat in the same way as the I.C.C. in the United States. In its post-war cases the I.C.C. has always given a lesser increase to lignite than to higher types of coal.

I do not say for one minute what the only lignite coal produced in Canada is in Saskatchewan. There is low value coal in Alberta which is entitled to the same type of consideration. We have never set ourselves in opposition to that.

In reply to Mr. Bell's question, these coal rates are all separately published, and so far as lignite coal is concerned we could be easily given the reduced rate. It would involve no rate complication elsewhere in Canada. It would be our respectful submission, and without any hostility to the maritime coal industry, that perhaps it might be felt that the maritime industry had received such generous help by way of other types of subvention that this particular type of relief could be given to Saskatchewan without involving the maritimes in any rate complexities.

Mr. CHEVRIER: Have you got to charge the rate which is authorized under the judgment, or can you charge lower rates?

Mr. BLAIR: You mean the railways?

Mr. CHEVRIER: Yes. I should have said, when you ship lignite coal, do they charge the rates under the judgment of the board, or can it be shipped under lower rates?

Mr. BLAIR: The railways can fix any rate up to 22 cents per ton.

Mr. CHEVRIER: Is there any place other than here where you can get relief?

Mr. BLAIR: There are two places.

Mr. CHEVRIER: I am excluding the subvention area.

Mr. BLAIR: There are two places. First, of course, is by direct negotiation with the railways to make new agreed charges. The second would be, in a very grievous type of case, to go to the Board of Transport Commissioners with the complaint. But we have tried that and it has not been successful, for a variety of reasons, many of them quite difficult to summarize.

Mr. KNOWLES: Since I have been asked a lot of questions, Mr. Chairman, and I am not a witness here, there is one thing I want to say.

The CHAIRMAN: You certainly are a witness, Mr. Knowles.

Mr. KNOWLES: There is one thing I want to say right on this record, and I think Mr. Blair will agree with me on this. On page 3 he says, "Lignite coal is a low value commodity to a comparatively short haul but has received no relief from any of the successive flat cents per ton increases imposed on all coal in post-war years."

I think Mr. Blair has overlooked the fact that the railways gave him a reduction of 40 cents a ton to some of his principal competitive points in Manitoba and Saskatchewan. I should like to make it clear on the record that it has not been a case of "all imposed and none taken off."

The CHAIRMAN: Thank you, Mr. Knowles. I am sure we all appreciate the presentation Mr. Blair has made on behalf of the coal companies of Saskatchewan, and we thank him for it.

We also thank Mr. Southam for coming forward and giving us the benefit of his local experience with regard to these coal matters.

Mr. BLAIR: Thank you.

The CHAIRMAN: The next witness we have is Mr. Jack Guest, an economist representing the government of the province of British Columbia. Mr. Guest has a brief, I understand. Gentlemen, I present to you Mr. Jack Guest, an economist representing the government of the province of British Columbia.

Mr. JACK GUEST (*Economist, representing the government of the province of British Columbia*): Mr. Chairman, Mr. Minister and gentlemen: we are very pleased to have the opportunity of discussing a number of questions which are of concern to the province of British Columbia in regard to the proposed subsidy of \$20 million.

These problems concern the application of the subsidy. I realise that the position of the Board of Transport commissioners as administrators of the subsidy has been made relatively clear since the committee began meeting on some of the problems that bother the shippers in the Pacific region. However, we feel that the attitude and opinion of the shippers of British Columbia should be made known to the parliamentary committee considering the Freight Rate Reductions Act.

It is the opinion of the government of British Columbia that a normal rate in effect December 1, 1958, and which took the full 17 per cent increase in rate, but in the interval, by virtue of competition or other circumstances may have been reduced below 17 per cent, but above 10 per cent, is entitled to a reduction in rate so that the increase will not exceed 10 per cent. It appears manifestly unfair to us that a rate which has taken all the increases to date, but by virtue of competitive conditions, has now been reduced but is still in excess of 10 per cent, above the December 1, 1958 level, should be given the advantage of subsidy to the maximum percentage allowed by the Board. Therefore, we propose that all non-competitive commodity and class rates which were increased by 17 per cent pursuant to the board order 96,300, effective December 1, 1958, be reduced to the extent the subsidy will allow but not in excess of 10 per cent above the level of rates prior to December 1, 1958.

Everyone is well aware that horizontal increases have the effect of placing an excessive burden on long-haul shippers, particularly all lower value commodities. We refer to the report of Turgeon's royal commission on transportation in the chapter entitled, "Horizontal increase", pages 61 and 62, as follows:

"Horizontal increases aggravate the disadvantage already suffered by long-haul shippers and consignees."

The Report continues:

"Special attention should be given to long-haul traffic and to rates on basic or primary commodities."

Since the report of the royal commission, a number of increases have been granted and the board has not seen fit to implement recommendations of the commission in regard to the impact of horizontal increases on long-haul shippers. It is well known that the western provinces suffer the most from horizontal increases on long-haul shipments. The table entitled "non-competitive commodity rates, distribution of intra and interprovincial car movements by mileage blocks" indicates the relative importance of the long-haul to the various provinces and it is interesting to note that 56 per cent of Alberta cars moving on non-competitive commodity rates travel, on the average, over 500 miles; followed by 46 per cent of the Manitoba traffic and 44 per cent traffic in British Columbia. That is the first table attached. The percentages appear at the bottom of the table.

According to the waybill analysis, Saskatchewan has no inter-provincial movement—the average mileage of which comes within the 500-750 mileage block. Nova Scotia is in a similar position to Saskatchewan. In the average inter-provincial mileages over 750 miles, Saskatchewan has the highest percentage followed by Manitoba, British Columbia, Alberta and Nova Scotia. It is obvious by the percentages of the provincial movements that the western provinces bear the bulk of the burden imposed on long-haul shippers by horizontal increases.

On the basis of the present proposed application for the subsidy the bulk of the subsidy will go to commodities which move on the average 500 miles or less. To be precise 52.9 per cent of the revenues for non-competitive commodity rates are earned on hauls 500 miles west and 35.5 per cent on hauls under 250 miles. On shipments originating in the province of British Columbia only 27 per cent of revenues are received from shipments under 500 miles. Approximately half of the national figure.

I might point out that the revenue figures only cover commodity non-competitive rates and because of lack of time and because these rates will move 80 per cent of the traffic on which the subsidy will apply, we think they are an adequate example.

The proposed subsidy legislation gives the government and the board the opportunity of implementing the important recommendations of the Turgeon commission by ensuring that the last horizontal increase be reduced in such a manner as to overcome the disadvantages suffered by the long-haul shippers. We therefore propose that rather than apply the subsidy as a uniform percentage reduction in rate that the reduction be graduated with a smaller percentage to movements under 500 miles and a larger percentage to movements over 500 miles. As an example we have filed the table entitled "Application of Subsidy to Non-competitive Commodity Traffic originating in British Columbia". By applying subsidy on a graduated basis some small relief will be given to long-haul shippers, and we believe that this was the intent of the minister when he stated in the house on April 7, 1959, that:

"it was the opinion of the government that it would be a fair thing to do to alleviate the burden imposed on the people affected particularly those who have to pay the cost of the *long haul across Canada*, and it was for this reason that the subsidy is being introduced at the present time."

We realize that there are difficulties in dealing with a graduated subsidy involving a reduction in rate just as there are difficulties involved in applying an increase in rates on other than a straight percentage basis but the impact of horizontal increases on the competitive position on long-haul shippers has been such that we must make some extra effort to find a more equitable solution.

Mr. CHEVRIER: Have you looked at clause 3 of the bill? Would you look at it and let me ask you this question: in line 19 if the words, "increased by 17 per cent" were taken out, would that meet your position?

Mr. GUEST: I think that would go a little further than we propose.

Mr. DRYSDALE: Following on Mr. Chevrier's suggestion, would not the answer be within the framework of the present legislation to have the railways make some announcement to the effect that all the freight rates which had increased to 17 per cent had gone down for competitive reasons to 10 per cent, or some other rate. If those particular rates which had been decreased could be deemed to be increased to 17 per cent immediately prior to the passing of this bill, then I think that would meet what Mr. Knowles has stated because the act, as I read it, says that the rate changes have to be at 17 per cent prior to the passage of this act. If there was this time difference of even thirty seconds I think it would be taken to come into effect immediately prior to the act within the present framework. Has Mr. Knowles any comment on this?

Mr. CHEVRIER: The minister said in the house this could not be done.

Mr. DRYSDALE: I think the situation is that Mr. Guest's case is that it had come down to 17 per cent because of competitive reasons, and that is why I think it would be feasible to let it go back up immediately before the freight rate.

NON-COMPETITIVE COMMODITY RATES
DISTRIBUTION OF AVERAGE INTRA AND INTER-PROVINCIAL CAR MOVEMENTS BY MILEAGE BLOCKS

Mileage Block	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	New Brunswick	Nova Scotia	Prince Edward Island	Newfoundland	Total	%
0- 249.....	428	296	181	125	2,542	867	225	498	25	200	5,387	60.6
250- 499.....	.....	133	287	63	413	391	142	90	.....	3	1,522	17.1
500- 749.....	147	321	.....	69	.....	46	3	.....	.....	.....	586	6.6
750- 999.....	58	99	103	40	69	.....	58	118	.....	.....	545	6.1
1000-1499.....	73	.....	36	8	320	13	.....	33	1	.....	484	5.4
1500-1999.....	.....	.....	24	40	49	5	4	.....	.....	.....	122	1.4
2000-2499.....	48	117	7	4	3	30	.....	3	.....	.....	212	2.4
2500-2999.....	9	6	.....	.....	11	.....	.....	.....	.....	.....	26	0.3
3000-3499.....	3	.....	.....	.....	2	.....	.....	.....	.....	.....	5	0.05
											8,889	

% of Cars*

Over 500 miles.....	44.1
750 miles.....	24.9
1000 miles.....	17.3
1500 miles.....	7.8

*Of the Provincial total.

SOURCE.—Waybill Analysis 1957.

NON-COMPETITIVE COMMODITY RATES

DISTRIBUTION OF REVENUES BY MILEAGE BLOCK IN INTERPROVINCIAL CAR MOVEMENTS

Mileage Blocks	British Columbia	Alberta	Saskat- chewan	Mani- toba	Ontario	Quebec	New- Brunswick	Nova Scotia	Prince Edward Island	New- found- land	Total	% to Total
(In Dollars)												
0- 249.....	88,968	62,914	29,278	22,380	396,697	174,210	27,975	37,146	3,874	22,395	865,747	35.5
250- 499.....	28,704	62,991	15,927	143,046	121,984	35,439	15,191	.....	759	424,041	14.4	
500- 749.....	79,125	103,717	.....	36,852	16,570	608	.....	.....	.....	236,872	9.7	
750- 999.....	40,949	29,330	42,841	21,346	56,288	.....	22,446	42,994	.....	256,194	10.5	
1000-1499.....	49,517	19,684	5,187	143,302	13,091	.....	18,449	641	.....	249,871	10.2	
1500-1999.....	.....	20,229	34,118	83,154	7,198	3,959	.....	.....	.....	148,658	6.1	
2000-2499.....	55,281	96,075	7,725	3,473	4,600	49,047	.....	3,412	.....	219,613	9.	
2500-2999.....	10,604	6,307	.....	.....	15,246	.....	.....	.....	.....	32,157	1.3	
3000-3499.....	3,477	.....	.....	.....	2,776	.....	.....	.....	.....	6,253	0.3	
	327,921	327,047	182,478	139,233	842,333	384,876	90,427	117,192	4,425	23,164	2,439,406	100.0

APPLICATION OF SUBSIDY TO NON-COMPETITIVE COMMODITY TRAFFIC ORIGINATING IN BRITISH COLUMBIA;
AT SEVEN PER CENT; GRADUATED TO YIELD SAME REVENUE

Destination	Average Distance (Miles)	No. of cars	Percent	Ton Miles	Percent	Revenue (\$ '000)	7% Subsidy (\$)	Graduated Rate (%)	Subsidy \$
British Columbia.....	178	428	55.9	3,606	22.0	88,986	27.1	6,229	6
Alberta.....	577	147	19.2	2,677	16.3	79,125	24.1	5,539	6
Saskatchewan.....	920	58	7.6	1,666	10.2	40,949	12.5	2,866	7
Manitoba.....	1,131	73	9.5	3,424	20.9	49,517	15.1	3,466	8
Ontario.....	2,168	48	6.3	4,139	25.3	55,281	16.8	3,870	9
Quebec.....	2,636	9	1.2	704	4.3	10,604	3.2	742	9
New Brunswick.....	3,064	2	0.2	98	0.6	2,493	0.7	174	9
Nova Scotia.....	3,440	1	0.1	68	0.4	984	0.3	69	9
									78
									23,119
									22,954

SOURCE:—Waybill Analysis, 1957.

Mr. HEES: The answer Mr. Chairman, is no.

Mr. DRYSDALE: For what reason?

Mr. HEES: I have made it as clear as I can. You can only stretch \$20 million so far and it is our intention to apply the \$20 million in the most effective way to the people we think are hardest hit, as far as this freight rate increase is concerned. We believe, after a great deal of consideration, that the most effective relief can be given in the way we have outlined. We may be wrong, but that is what we believe after a great deal of consideration.

Mr. DRYSDALE: We are in agreement actually with the minister, because the board had ruled that the particular commodities were entitled to a 17 per cent increase. I am saying it is fine as far as the board was concerned, but when the railways faced the facts of life on some kind of commodities they probably had to reduce it to 17 per cent.

Mr. HEES: The aim of this measure is not to subsidize the carriers, but rather the consumers who pay the increased freight rates. If consumers are paying less than the 17 per cent rate increase they are not as hard hit as those who are paying the full 17 per cent increase, and it is our intention to help those who are paying the full increase because we believe they are the ones hardest hit.

Mr. DRYSDALE: Would the minister agree that under the terms of this legislation there is nothing to prevent the railways increasing these rates to 17 per cent immediately before this legislation comes into effect in order to take advantage of it?

Mr. HEES: If the legislation permits them to do that then, of course, if they want to do it they can.

Mr. DRYSDALE: May I have commissioner Knowles' comment on this interpretation of the legislation.

Mr. KNOWLES: If you had my comment it would be you are simply extending the subsidy under competitive rates and will bring in an enormous amount of traffic that is not getting a subsidy.

Mr. DRYSDALE: What I am saying in effect is if that is not your intention, then the way the act is drafted is wrong; because as I read the act they are entitled to raise it back up to 17 per cent any time immediately before this act is brought into effect.

Mr. KNOWLES: Yes; but it is a permissive order. If the railways have not taken 17 per cent and if they want 10 or 14 or if they applied 17 per cent and took 3, 4, 5 or 6 per cent off, then they can file the tariff again up to the 17 per cent and the shipper will automatically become entitled to the 17 per cent reduction.

Mr. CHEVRIER: Mr. Guest, in the first part of your brief you say the recommendation of the royal commission with reference in particular to horizontal rates has not been carried into effect by the railways. What the recommendation did say was that the remedy with reference to the impact of horizontal increases could be given by studies made by the railways and could be applied by the railways themselves. I am asking whether there has been any representation made to the railways, the two main railways, by the government of the province of British Columbia with reference to asking them to do something on these long-haul rates which would alleviate the impact of the horizontal increases.

Mr. GUEST: The recommendation of the Turgeon commission, if I remember it correctly, goes on to state that if the railways do not do it, the board should. Not only the province of British Columbia but also the other provinces have requested the board to take this into consideration; and the board has

continually stated, and with some justification, that there are too many problems in applying other solutions. For example, you could apply a solution which is currently being discussed of applying a horizontal increase, partly on weight and partly as a percentage on rate.

Mr. CHEVRIER: May I interrupt. I do not want to disagree because there may be some other part of the recommendations with which I am not familiar. However there are two sentences at page 61 which say:

The remedy does not lie in the prohibition, statutory or other, of horizontal increases, but is in the hands of the railways themselves. The railways should make studies of traffic conditions in all the bearings and should present to the board ...

It does not say the board should do it.

Mr. GUEST: At the bottom it says:

... that if the railways do not approach the task in this way it should be the duty of the board to see they do so.

Mr. CHEVRIER: But do you not think that first of all you should make representation to the railways to ascertain from them whether or not they will comply with your request.

Mr. GUEST: Mr. Chairman and Mr. Chevrier, I think that numerous requests have been made to the railways by the provinces. The railways have always supported the contention of the board, to my knowledge, that the only way to impose an increase is on horizontal basis.

Mr. CHEVRIER: I thought it was the other way around. Perhaps I was mistaken.

Mr. GUEST: I think it could be the other way around, but it is the same thing.

I am sure that the railways, to my knowledge of the general freight rate cases, have always stated that it would involve too many complexities to do anything else. But there has been a serious impact on the competitive position of long haul shippers, particularly from the province of British Columbia, and I am sure from the province of Alberta as well, and according to the figures, from the province of Manitoba too. But I speak for the province of British Columbia, and I know that some of our industries have lost markets, and have had their markets continually eroded.

I am not suggesting that it was always the fault of high freight rates; but certainly the horizontal increases in rates has placed British Columbia industry in a very difficult position in regard to the markets of eastern Canada and in regard to markets in Manitoba and parts of Saskatchewan, and not to mention the Lakehead.

Mr. CHEVRIER: How is the traffic divided in British Columbia as between trans-continental rates and what we are dealing with now, class and commodity rates?

Mr. GUEST: I could not answer that question at the moment. But tomorrow morning I think I could.

Mr. CHEVRIER: It is a fact that the great majority move on trans-continental rates, do they not?

Mr. GUEST: I do not think so, but I can get that answer for you by tomorrow morning.

Mr. CREAGHAN: I would like to ask two questions on the brief. The first question concerns paragraph 3 of the brief where you said that because of competition "or other circumstances" the railways have not put in the whole 17 per cent. In some cases it must be much less than 17, but above the ten.

Can you explain to satisfy my curiosity what you mean by the words "or other circumstances", other than competition now?

Mr. GUEST: Well, there are rates which are definitely competitive rates. I think it was explained at some length yesterday by Mr. Knowles.

Mr. CREAGHAN: Are you going on the agreed charges and competitive rates?

Mr. GUEST: No, I am trying to answer this question, because one deals with competition, and the other deals with "other circumstances". A rate marked competitive, is intended to meet competition caused by water carries or some other form of carrier. Then there are reductions in the rates caused through competition between the railways. In other words, they are a special form of competition.

There are rates which are lower by virtue of certain market competitive situations which may or may not be so considered "officially" competitive. There appears to be a division of opinion in this regard, as to what is a competitive rate. What we are requesting is this, if the rate had absorbed the full increase to last December, that is, if it was a normal rate last December and by virtue of the 17 per cent it had become in part competitive, then it would be entitled, up to 10 per cent, to the same relief.

Mr. CREAGHAN: Has there not been a marked change in the competition or in the other circumstances in British Columbia between November 18 last and the present date.

Mr. GUEST: There have been some quite considerable changes, and I can say this: that at a meeting of our advisory committee on freight rates ten days ago when this question was discussed, some of the larger shippers in the province in discussing the rates which took 17 per cent, when requested to give examples said that it was very difficult, because of the competitive situation which had developed since December 1, 1958, and also because the railways had not fully clarified their position as yet. The situation is not clear as far as rates are concerned, unfortunately for some of our major commodities.

Mr. CREAGHAN: My final question is this: I presume that basically you are not opposed to the \$20 million subsidy?

Mr. GUEST: Oh no.

Mr. CREAGHAN: You seem to be opposed to the purpose of the bill. If I am right in assuming what you suggest, you want another bill to provide a subsidy for payment with respect to other types of rates, which were not protected.

Mr. GUEST: No. We are not requesting a subsidy on agreed charges or competitive rates. But in view of the uncertainties of the situation we are only requesting that if the normal rate took 17 per cent and for any reason at all, the rate was reduced below 17 per cent, but above 10 per cent, that it be given the benefit of whatever difference there is between the ten per cent and the reduced rate.

Mr. CREAGHAN: My understanding was that all class and commodity rates must come up 17 per cent.

Mr. GUEST: No, they do not have to. The board issues an order and it says to the railways: you can take the 17 per cent or any part of it. Then the railways can take it or can refuse it. But if they reduce the rate—it may be for competitive reasons, it usually is—becomes a competitive rate; but if a particular rate up to this time has taken all the increases, and has not been held down before by virtue of competition and now, because of this last 17 per cent rate increase, it becomes a competitive rate in part. This is the rate which we want to protect.

Mr. CREAGHAN: It seems to me that yesterday Mr. Knowles stated to the committee—or some witness stated to the committee—that there was some evidence that all non-competitive rates went up 17 per cent. Did I hear that incorrectly yesterday?

Mr. KNOWLES: That was my understanding, but we have the assistant general freight traffic manager of the Canadian Pacific Railway with us, Mr. J. M. Roberts, and you might ask him if he advanced any rates 11, 12, 13, 14 or 16 per cent in his tariffs. I do not know all the tariffs, but Mr. Roberts is in charge of the tariffs of the Canadian Pacific Railway and he can tell you.

Mr. CREAGHAN: That is a point that got me confused yesterday, and I was sure it applied to non-competitive rates.

Mr. CHEVRIER: And commodity.

Mr. CREAGHAN: Oh yes, and that they automatically went up by 17 per cent.

Mr. CHEVRIER: No, that is not correct in my understanding.

Mr. DRYSDALE: Let us call the man from the Canadian Pacific Railway to find out.

Mr. CREAGHAN: If my assumption is correct, then everything we have been debating has to do with the whole purpose of this legislation.

Mr. FISHER: I have a few questions I would like to ask Mr. Guest. Will I get a chance tomorrow to ask them?

Mr. CHEVRIER: No, ask them now.

Mr. CREAGHAN: If we could get the answer to that proposition, at least the committee would know whether or not we are debating subjects which are not related to the legislation.

Mr. J. M. ROBERTS (*Assistant general traffic manager, Canadian Pacific Railway*): The rates were all increased, and all made subject to the tariff to which Mr. Knowles referred subsequently. Due to the force of competition, the 17 per cent may have been taken off. But originally, on December 1, all normal class and commodity rates were increased intra Canada.

Mr. CHEVRIER: In some circumstances you perhaps raised them only three per cent or five per cent?

Mr. ROBERTS: No sir, not originally.

Mr. CHEVRIER: Not originally; but after the judgment went into effect, you might have reduced that 17 per cent to three per cent, five per cent, or ten per cent?

Mr. ROBERTS: That is correct, according to the force of competition.

Mr. CHEVRIER: You would have increased them to 17 per cent in the first place?

Mr. ROBERTS: We cannot pick and choose because we do not have the time. We have to apply all of it to everything, and my understanding is that that was the procedure.

Mr. DRYSDALE: You say there is only a small proportion which went up 17 per cent?

Mr. ROBERTS: No, I would not say that.

Mr. DRYSDALE: Or a large proportion?

Mr. ROBERTS: Yes sir.

Mr. FISHER: Would you say that British Columbia with a good long haul perhaps gained more in the reduction than some of the other provinces?

Mr. ROBERTS: No, I would not say that. For example, lumber from British Columbia to eastern Canada did not get the 17 per cent, because it moved on a competitive rate along with Saskatchewan lumber.

Mr. FISHER: Yes, I know the whole story.

Mr. DRYSDALE: Is the Canadian Pacific Railway going to raise all these various rates and take advantage of the opportunity to bring them all back to 17?

Mr. ROBERTS: That is something to which consideration has not been given.

Mr. CHEVRIER: With respect to these rates which were discussed, could you give us the proportion as to those which remain at 17, and those which came down? Could you divide the traffic?

Mr. ROBERTS: No, I am sorry I could not.

Mr. CHEVRIER: Would you say that ten per cent were reduced, and 90 per cent were left at the same rate?

Mr. ROBERTS: There are so many rates that I would not venture an opinion. I would be deceiving you if I tried.

Mr. BELL (*Saint John-Albert*): Have any commodity rates been transferred to competitive rates?

Mr. ROBERTS: I would say that automatically if we did apply the 17 per cent increase to a rate on December 1, and subsequently took all or part of it off, it would be due to the force of competition, and it would move over into the competitive category.

Mr. BELL (*Saint John-Albert*): This reduction might have taken effect right away.

Mr. ROBERTS: We moved as fast as we could.

Mr. FISHER: Is it possible that in shipping into some point where you have both the Canadian National Railways and the Canadian Pacific Railway, that one railway would reduce the 17 per cent while the other would not?

Mr. ROBERTS: No sir. We do not like to see the Canadian National Railways get the business. If they took the 17 per cent off, and we did not they would get the business.

Mr. FISHER: If I showed you an example where the Canadian National Railways knocked off the 17 per cent on a shipment of lumber from British Columbia to Armstrong, into the eastern territory of the Canadian National Railways, into the lakehead, and that the rate had been reduced, would you say that this happened normally, or that it would just be due to an accident?

Mr. ROBERTS: No, that would depend on conditions. I do not know the circumstances. We would have to look at it.

Mr. CHEVRIER: Are you not bound by a statute to cooperate under the Canadian National-Canadian Pacific Act which requires a certain amount of cooperation?

Mr. ROBERTS: Yes, we are, otherwise there would be chaos.

Mr. DRYSDALE: Mr. Guest suggested this very equitable basis of tapering the rates. The suggestion was that apparently it should be initiated by a study made by the railroads. Speaking for the Canadian Pacific Railway, would you have any objection to suggesting such a study in order to make the rates more equitable across Canada?

Mr. ROBERTS: We tried that one in the 17 per cent case, and we had some difficulty in deciding upon the types of commodities to apply what you might call a flat increase to. The provinces contended that we should do away with

the inequities of a flat percentage increase. But we as a railway should not set ourselves up, we contend, as a judge, as to what industry or particular commodity should be picked out and treated in this fashion. I might say that if we did that, we would start out with fresh fruit, and from fresh fruit we would go to canned fruit, and then to fresh meat and from there to canned meats; or we would start out with ordinary wooden shingles and from there we would go to asbestos shingles and to asphalt shingles; the suggestion would grow like "Topsy".

Mr. DRYSDALE: Do you feel that the Board of Transport Commissioners would be in a better position to make such a study?

Mr. ROBERTS: I would not like to answer that question. I think it is a pretty difficult thing to do in a general rate increase.

Mr. DRYSDALE: Do you feel that tapering the rates is more equitable than applying a flat rate? Would a reduction in tapering the rates benefit the longer haul? As the distance increases the rate per mile gets lower, and the benefit which accrues to the long haul shipper should be built into the structure?

Mr. ROBERTS: As the distance extends the rate per mile gets lower, and that is the benefit that accrues to the long haul shipper.

Mr. DRYSDALE: Would you feel the percentage increase and decrease should be on a tapered basis, as suggested by Mr. Guest in his brief. He figured it out for British Columbia, and going from 6 per cent for less than up to, I think, 577 miles, 7 per cent for 920 miles and 8 per cent for 1,131, rising to a maximum of 9 per cent. What do you think of that?

Mr. ROBERTS: Regardless of which way you do it you are still coming up against the same situation, whether it be the flat increase of so many cents per 100 pounds, or graduated as some governments suggest.

Mr. CHEVRIER: Is it not a fact, as suggested in the brief, that the further away you are, the greater the impact of the uniform increase?

Mr. ROBERTS: In cents per 100 pounds, but not according to the service you are getting.

Mr. CHEVRIER: Well then you do not agree fully with this statement that was read a moment ago, that the horizontal rate increase affects more greatly the long haul provinces?

Mr. ROBERTS: Our contention is, of course, that by the percentage increase each one bears his proportionate share of the cost.

Mr. CHEVRIER: The royal commission did say that this horizontal rate increase had a greater effect on the far away provinces than on those in central Canada. Have you any remedy to suggest?

Mr. ROBERTS: No, sir I do not.

Mr. CREAGHAN: You have told the committee that you raised all of them to 17 per cent and then a great number were reduced to a lesser amount. What I am worried about now is that probably the day before the proclamation of this bill, they are all apt to go up to 17 per cent again, or certain chosen articles will, depending on the time of the year the act is proclaimed, which will create a great deal of confusion again with the shippers across the country.

Mr. ROBERTS: No, sir. I will say this. I personally have not given any consideration to raising the rate.

Mr. CREAGHAN: The purpose of this bill is to give \$20 million worth of relief to the shippers of Canada, and to get that relief the increase of 17 per cent must be in effect the day the act is passed. If my interpretation of section 3 is correct, the shippers will not be getting any effect unless you raise the rates again the night before the act becomes law.

Mr. ROBERTS: We can only raise them on thirty days' notice.

Mr. DRYSDALE: You had better give notice now then.

Mr. HORNER (Acadia): Mr. Chairman, I would like to ask either the minister or Mr. Knowles just how great a difficulty it would be to graduate the percentage increases so that the largest percentage went to the movement of over 500 miles.

Mr. HEES: We examined that possibility when we were considering this measure. We considered it very seriously during a number of meetings. Mr. Knowles can explain briefly why we found what we did.

Mr. HORNER (Acadia): It seems to me it would bring the greatest amount of benefit to the consumers who have to pay for the long haul.

Mr. HEES: That is what we thought too. Mr. Knowles can explain the difficulties of working out such a condition.

Mr. KNOWLES: I will give you an illustration: take a box of groceries from Montreal to Toronto. The rate went up 38 cents per 100 pounds. That will be reduced by 15 cents. The same box of groceries going to Vancouver went up \$1.92 per 100 pounds, not 38 cents. It went up nearly five times as much, and it will come down five times as much by a 79-cent reduction. There is the effect of the rolling back on the long run versus the short haul, and I do not see what British Columbia wants more than that.

Mr. HORNER (Acadia): Does that satisfy Mr. Guest?

Mr. GUEST: That is the whole point the Turgeon commission made. The cost of these groceries went up 38 cents between Montreal and Toronto; with the reduction they will go up 23 cents. When you increase rates by percentage, you increase the value. The competitive position of a commodity becomes much more unfavourable when a percentage increase is placed on a rate. Now a percentage decrease, of course, brings the rate down to the same extent the percentage increase raises it up. But the inequity is still in the rate as a result of a series of percentage increases. It is the dollar and cents disparity created by the long haul, which costs a lot and the short haul, which costs a small amount. It is true there is a service involved and you have to provide more work long distance haul than a short distance haul. But with hauls like we have in Canada, this has serious consequences to shippers with a market 1,000 or 1,500 miles away.

Mr. HEES: Mr. Guest, you have been saying that everyone in British Columbia is being discriminated against because everything they buy comes from the east and they have to pay a long haul. What about Ontario consumers who buy British Columbia apples, British Columbia salmon and British Columbia plywood or lumber? If you live in Vancouver you pay practically no freight at all, but if you live in Toronto you pay a great deal of freight. So this becomes a really involved argument. I suppose if you get into the philosophy of the thing perhaps you might say the "privileged" people in British Columbia pay that extra premium for the privilege of living in what they consider to be the finest province in Canada. That about sums it up.

Mr. DRYSDALE: Hear, hear. The only point, Mr. Chairman—

The CHAIRMAN: I am sorry. We have lost a quorum.

Mr. DRYSDALE: Let us get going anyway. I do not think you have to have a continuing quorum under the rules of the committee.

The CHAIRMAN: Yes, we do. Tomorrow morning, gentlemen, at 9.30 in this room, and again tomorrow afternoon at 3.30.

Mr. HEES: Could I say, Mr. Chairman, that I am very sorry, but I am afraid I cannot be here tomorrow. I rather expected that the committee would

have concluded its hearings by tonight and I made an appointment to go to Washington tomorrow on business regarding pilotage, which Mr. Fisher and Mr. Chevrier urged me to go on. I am afraid I cannot put it off, and I cannot be here tomorrow.

Mr. CHEVRIER: I feel terribly sorry about this, because I have to be away as well and I was relying on you to be here.

Mr. HEES: Then the committee should go ahead very quickly, tomorrow.

The CHAIRMAN: Thank you, gentlemen. We will see you tomorrow morning, when we have some more witnesses to hear.